PHD

An analysis of intragroup relationships in a multi-divisional corporation

Brewer, Richard

Award date:
1999

Awarding institution:
University of Bath

AN ANALYSIS OF INTRAGROUP RELATIONSHIPS IN A MULTI-DIVISIONAL CORPORATION

Submitted by Richard Brewer
for the degree of PhD
of the University of Bath
1999

R Brewer.

Summary

This research is a study of relationships between companies in the same corporate organisation or group. The relationships they form are termed intragroup.

A series of propositions are developed to help describe and account for the behaviour of companies involved in intragroup relationships. The propositions indicate the different factors which require investigation in order to understand the nature of these relationships.

The methodology used to evaluate the propositions has two features. Firstly, respondents' perceptions and views are determined by their reactions to a number of scenarios. These scenarios are developed after an initial study of intragroup relationships. They each depict a situation that may occur in these relationships. The reactions to the scenarios are tape recorded and analysed by a form of content analysis. This approach has allowed the study of a wide range of factors which the propositions had indicated were important.

The empirical work mainly took place in one focal organisation. For comparative purposes, a limited number of interviews were conducted with managers in other corporate groups.

The main body of the research explores the following aspects of intragroup relationships:

- The way these relationships are influenced by the presence of a corporate centre.
- The influence of other companies, both inside and outside of the group.
- The factors that affect the formation of trust between group companies.
- The way the group environment influences the flow of information between companies.
- Sources of conflict in intragroup relationships and mechanisms for their resolution.

The research concludes by highlighting the unique characteristics of intragroup relationships that influence their formation and development in a group setting.

The findings have important implications for managers who seek to co-ordinate activities between various parts of a multi-divisional corporation.

Acknowledgements

Many people have contributed in various ways to the production of this thesis.

Professor David Ford of the University of Bath School of Management has been patient and helpful at all times, giving me the motivation and discipline to systematically approach the exploration of intragroup relationships. I have greatly valued his support and guidance throughout the project.

This work would not have been possible without the help and hospitality of the companies involved in the research. Managers in Agrifood and other organisations have freely and patiently given their time in numerous interviews and discussions. Without their goodwill, the final study could not have been completed.

My wife and children have provided constant motivation and encouragement, and have given me faith that I could complete this monumental challenge, whilst holding a full time job. Their backing through the good times and the bad times has been especially important.

To all those who have assisted me in my quest, I offer my sincere thanks.

Contents

Chapter 1

Introduction

1.1 Areas and aims of the study

This study is an investigation of relationships between companies within the same corporate organisation or group. The relationships they form we shall term 'intragroup'.

The aim of this study is to develop a comprehensive understanding of intragroup relationships. The degree to which membership of a corporate group influences relationships between internal companies, represents one of the prime areas of investigation. We are interested in identifying factors that are associated with the environment of the group itself, that are likely to endow intragroup relationships with special characterising features. Our objective is to produce an in-depth and comprehensive analysis, by bringing many of these factors together in the context of a single study.

Academics have recognised that the formation and development of business relationships is often based on many factors. In a particular situation, certain contingencies may be influential over others in deciding whether one company chooses to interact with another. (Oliver 1990). Understanding the impact of each contingency and its interaction with others, represents one method of characterising and explaining the behaviour of companies. A key to understanding the dynamics of 'intragroup behaviour' is to recognise whether these relationships are characterised by a profile of contingencies where certain factors are particularly dominant. This provides a useful reference by which to compare and contrast relationships between group companies, with other forms of business relationships, particularly those between unrelated entities. (Ones we might term 'intercompany relationships').

The analysis presented in this thesis, draws on several concepts from the behavioural sciences, economics, business strategy as well as modern industrial marketing theory developed in the last fifteen years. It is considered that integration of these different concepts will provide a useful advance on our understanding of these relationships in terms of describing and predicting how companies might view each other, and how they behave.

Our primary area of analysis is focused on dyadic relationships that develop between internal group companies. We are particularly interested in relationships that involve some form of economic exchange of goods and services between group members. We also acknowledge that there may be important intragroup relationships inside a group that involve no financial exchange (for example the transfer of information and know-how between counterparts) which the parties may regard as significant. The presence of a group centre or head quarters, that potentially connects all operating companies inside a group, suggests that triadic linkages (between buyer, seller and centre) are also significant in understanding the nature of intragroup relationships. The focus on dyadic and triadic constructs is a major theme running throughout this study.

The main body of research into intragroup relationships takes place inside a specific corporate group called 'Agrifood'. The findings of the research primarily relate to one specific case. We examine intragroup relationships operating inside of Agrifood to distinguish special characterising features, that may apply to intragroup relationships in other corporate groups. There are a number of reasons behind the selection of Agrifood as the organisation in which to conduct research into intragroup relationships.

- Agrifood is structured along the lines which is typical of many multi-divisional corporations being divided into principal operating divisions and individually accountable business units.
- Agrifood is characterised by a number of significant buyer/seller relationships between various parts of the group, typically representing over 10% of business unit sales or purchases.
- Access to managers was made available to the researcher, who had been a member of the organisation for over fifteen years, and had been involved in a number of internal relationships inside Agrifood.

1.2 Intragroup relationships and the multi-divisional form

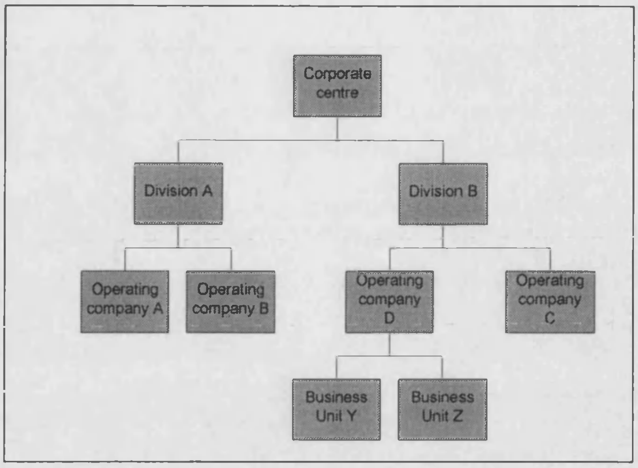
Intragroup relationships derive from the multi-divisional form of organisation which has grown to prominence during the twentieth century. It represents one of the century's most important innovations in business organisation, replacing unitary or functionally-based organisations as the prevalent form of corporate structure. (Palmer et al 1987). It has facilitated the growth, expansion and globalisation of companies across all continents.

In multi-divisional corporations, the hierarchy is organised on an operating rather than functional basis. Each division controls the operations of a self contained part of the organisation. Tasks are organised into units, usually on the basis of products or geographic markets to which outputs are sold. The aim is to place in one division activities which interact strongly and put weakly interacting parts in different divisions. (McGuinness 1996). These divisions may further be organised into individual operating companies or business units.

The head of each division (or operating company or business unit) is responsible for its operating performance which is judged by indicators of overall success in its markets. These divisions or business units therefore represent discrete business entities which are related through a common parent company. The latter we will refer to in this text as 'the corporate centre'. Its role is to choose organisational goals, monitor and audit the performance of the separate operating divisions and allocate organisational resources amongst those divisions.

A simplified example of the structure of a multi-divisional corporation is provided in Fig 1.1. Intragroup relationships can occur between operating companies A and B within the same operating division, or between companies A and C in different divisions. They may also arise between business units within the same operating company. (E.g. between business units Y and Z).

Fig 1.1



Intragroup relationships therefore represent relationships between divisions or operating companies or business units in the same corporate group. Their characterising features are that:

- Parties in the relationships are connected through common ownership.
- Each party is independent and accountable for its own performance.

Intragroup relationships become increasingly significant when they involve some form of economic exchange between the parties in the form of goods and services. In this case, one part of the group becomes a customer of, or a supplier to, another part. Because each party is independent, we would expect intragroup relationships to assume many of the features of dyadic interaction associated with 'normal' customer/supplier relationships between unrelated companies. We would however, also expect that interaction between the companies to be influenced by the fact that they belong to the same corporate group and are ultimately accountable to the same authority.

In defining relationships in this way, it is important to specify what we would not classify in the 'intragroup' category.

- In this study, the focus of attention is on relationships between organisations, rather than within each individual organisation. We are not therefore concerned with relationships between various functional areas inside individual operating companies.

- Secondly, we are not primarily concerned with superior/subordinate relationships inside a group, for example between a corporate headquarters and an individual operating unit. The only proviso we make to this is where a subsidiary company's relationship with the centre affects its relationships with other subsidiaries. Analysis presented later in this study will show that a corporate centre can have a profound influence on the relationships of its operating companies.

- Thirdly, we would exclude from our analysis vertically integrated units that are managed and co-ordinated by a single authority within the group. Thus we would distinguish between an in house plant that supplied parts and components to a user that was inside the same division, to a manufacturing plant that supplied components to other divisions across the group. Our prime area of focus is on the latter.

Finally, we must emphasise the point that our prime area of concern is studying economic relationships between group actors that involve the exchange of goods and services and are regarded as significant and important by the individual companies involved. We must recognise that relationships may develop between different parts of a group that are not primarily economic in nature, where other aspects are valued by the parties, e.g. the transfer of information or social dialogue. Whilst we acknowledge that these relationships may also be regarded as important to the participants, and may ultimately have an economic purpose, we are primarily interested in situations where goods and services are exchanged between members of the same group; where one part of the group is a raw material or component supplier to another.

1.2.3 Importance of the study of intragroup relationships

The study of intragroup relationships is important for a number of reasons.

Firstly, intragroup relationships are themselves important. Reece & Cool (1978) reported as far back as 1976 that 98% of the largest 1,000 US manufacturing companies were organised in multi-profit centre form. Some 80% of these were estimated to use intra-profit centre transfers. In addition, Eccles & White (1988) identified that many smaller firms are also organised in a multi-profit centre basis, although the percentage of small firms using intragroup transfers is probably smaller than in large corporations. This would suggest that relationships between different companies or divisions in the same group extensively occur in many industrial sectors.

Secondly, business relationships generally, are important. Johanson & Wootz (1984) have argued that industrial marketing is 'very much a matter of establishment and development of customer relationships'. Early IMP studies were based on the fundamental notion that a critical task for the business marketeer and purchasing manager is the management and development of relationships with customers and suppliers. (Ford 1997). To understand what goes on inside a company, one needs to understand its relationships for these effectively define its existence. Without external relationships a business has no meaning. A firm's performance depends not only on its own efforts, but those of other organisations that provide it with inputs and seek access to its outputs. A company's ultimate success is inextricably tied to near and distant relationships with other businesses. The way these relationships are managed, may significantly constrain a company's future earnings potential. 'The management of these relationships is a critical task on which a company's very existence depends'. (Ford 1998).

The third factor is related to the second in that whilst the development and management of relationships fundamentally defines earnings potential at the company level, in the case of intragroup relationships, these may significantly influence the earnings potential of the group as a whole. Many corporations seek to derive some form of synergy from the collection of divisions and operating companies that comprise the group. Without this synergy, the fundamental rationale for the existence of the corporation may be flawed. One way of unlocking this synergy is through the interaction of various parts of the group. This interaction may involve the transfer of goods and services between different divisions. On the other hand it may represent the exchange of technical information and know-how. Intragroup relationships represent the vehicle for these exchanges to occur. They may enhance these exchange processes or impede their progress. They can provide the key for exploiting various synergies between different parts of the group. Or they can ensure that synergies remain buried in the organisation never to see the light of day.

1.2.4 Overview of the chapters

The form of presentation of this thesis can be outlined as follows:

Chapter 2. Review of the literature

This chapter places the study in the context of work developed in the area of business relationships. We see that intragroup relationships have commanded little attention in academic literature. Our aim therefore is to identify key concepts from related works, that can be used to analyse and comprehend relationships in a group setting. We first of all identify and examine a number of critical contingencies that motivate companies to establish business relationships. We then go on to examine these relationships in the context of industrial networks. We highlight that one of the aims of this study is to fill a gap in the literature by giving prominence and highlighting the importance of relationships between companies in a group.

Chapter 3 Development of propositions about intragroup relationships

In Chapter 3, we develop a series of propositions that describe various characteristics of intragroup relationships. These propositions have been derived from: the literature review of Chapter 2, the author's intuitive ideas about intragroup relationships and conversations with various practitioners involved in managing relationships in a group setting. The purpose of the propositions is to help describe and account for the behaviour of companies in their relationships with group partners.

Chapter 4 Methodology

This chapter describes the development of a methodology used to examine the features of intragroup relationships as described by the propositions. The first part of the chapter identifies certain factors that have influenced the selection of the methodology used to study intragroup relationships. These factors include the scope of the research, the sensitivity of the relationships and the position of the researcher. The methodology that is developed in the second part has two main features. The perceptions of managers about their relationships are obtained by recording their responses to a number of hypothetical situations called ‘scenarios’. These scenarios are constructed to be relevant and true-to-life as possible. The method has been chosen to give a fuller and more realistic insight into the views of respondents, than provided by other research instruments such as questionnaires. Secondly, tape recorded interviews are analysed by a form of content analysis. This enables the identification, ordering and quantification of a wide variety of factors that influence the development of relationships in a group.

Chapters 5 - 10 Results

The presentation of the empirical results closely follows the development of the propositions.

In Chapter 5 we examine the influence of corporate centres on the trading relationships of their subsidiary companies. We identify the reasons why corporate management should directly intervene in relationships between group companies, and highlight the mechanisms that are employed to co-ordinate their activities.

In Chapter 6, we examine the effectiveness of corporate mandates expressed in the form of rules that govern interaction between group companies. We recognise that individual operating units may perceive that these mandates are not in their interests, and may act to diminish or neutralise their impact.

In Chapter 7, we investigate the impact of third parties, both internal and external to the group, on relationships between subsidiary companies. We recognise that interaction between operating companies is conditioned by indirect links with other group companies, as well as direct and indirect links with alternative customers and suppliers outside of the group.

In Chapter 8, we explore the flow of information in intragroup relationships. We identify factors in the group environment that are responsible for enhancing or reducing the level of information exchange between group operating companies.

In Chapter 9 we identify factors that influence the level of trust between parties in an intragroup relationship. We highlight the potential for corporate mandates to be opportunistically exploited against an internal trading partner. We also examine the potential for rivalry to develop between business unit managers.

In Chapter 10, we explore how conflict arises and is managed and resolved within a group setting.

Chapter 11 Conclusions

This chapter analyses the findings of the empirical research and points to significant conclusions. It describes the implications of these findings for the strategic management of relationships between group companies.

Chapter 2

Review of the Literature

Introduction

In the previous chapter, we highlighted that the reasons companies form relationships are likely to be complex and multifactorial. Over the last fifteen years, marketing academics have become increasingly interested in identifying and understanding these factors, both singularly and in combination. Their views are expressed in a rapidly expanding body of literature, categorised under the general heading of 'relationship management'.

This chapter presents a review of the literature relating to intragroup relationships. The task of the review is to develop a basis for studying relationships between companies or business units within a corporate group. Whilst a comprehensive study of relationships between group companies has not been identified in the literature, many writers have made reference to the group environment when discussing aspects of business relationship formation and development. This chapter draws on research from a number of fields including marketing, economics, organisational behaviour and corporate strategy. Its aim is to identify key concepts that can be used to analyse and comprehend the behaviour of companies within a group setting.

The review of the literature is presented in two parts.

- In part 1, we examine the critical contingencies that motivate companies to establish relationships. Oliver (1990) identifies six of these contingencies: necessity, reciprocity, asymmetry, stability, efficiency and legitimacy. Oliver's work brings together a number of themes from across the business relationship literature to provide a unified and comprehensive analysis of the factors that motivate companies to form business relationships.

- In part 2, we examine relationships in the context of industrial networks.

A bibliography of all the references used in this thesis is presented in Appendix 1.

2.1 Contingencies of relationship formation

2.1.1 Necessity

Relationships that form out of necessity are sometimes termed mandated. Mandates, in the form of formal rules, may provide the impetus for a relationship that may not have occurred voluntarily. Hall et al (1977) recognise that relationships can take different forms depending on whether they are mandated based on formal agreement or are voluntary. They note that few inter-organisational relationships exclusively fall into a single approach. In a mandated situation for example, voluntary interaction may still take place. At any particular time organisations can be interacting with each other on a multiple basis.

Organisations can have different types of relationships with different partners. Whetten (1981) distinguishes between relationship structures of mutual adjustment (voluntary), alliance structures (intermediate) and corporate structures of co-ordination (mandated). The last description bears the hallmarks of an intragroup relationship where a corporate centre mandates interaction between various subsidiary units. Warren (1967) distinguishes between relationships where interaction is mandated by a higher authority and organisations that have the relative freedom to choose their own partners and patterns of interaction. Raelin (1982) recognises the importance of understanding how inter-organisational linkages affect the performance of a network in carrying out a policy mandate.

Eccles & White (1988) identify two forms of mandate in inter-profit centre transactions: a price mandate (expressed in the form of transfer prices) and an authority mandate. Price and authority have traditionally been regarded as alternative mechanisms for allocating resources. In markets, economists generally believe that resources are allocated through prices, whilst in hierarchies they are allocated through authority. Studies have shown however, that markets may contain authority properties found in companies and firms may contain pricing mechanisms found in markets. Eccles & White (1988) contrast the characteristics of multi-divisional firms in capitalist economies and note that they bear many similarities to socialist (centrally planned) economies in terms of their resource allocating mechanisms. Price and authority may therefore form the basis of mandates within intragroup relationships.

A number of writers have highlighted the influence of mandates on co-operation and conflict between parties in a relationship. Aldrich (1976) concludes that mandating a relationship increases the frequency of interaction between respective organisations; but he also found that interaction tended to be unbalanced in favour of one of the organisations and this was associated with lower perceived co-operation. Raelin (1982) notes that the effect which conflict has on inter-organisational networks of the mandated type is predicted to be normally negative except in those instances in which conflict serves as a catalyst for future constructive contact. However he concludes that the wider the conflict there is among actors in a mandated network, then generally that conflict is more frequent, more intense, more harmful and less resolvable. Islam, Rajagopal & Eadie (1993) note that centralised decision making leads to conflict rather than co-operation between members and can create tensions and pressures on subordinates.

Hall et al (1977) conclude that where the basis of agreements is a strong legal mandate, power issues are apparently resolved to the extent that they do not become part of the pattern. This is not to say that there are no power differences; these are apparently accepted by the parties and are no longer an issue. Also, with formal agreements, many of the issues involved in exchange are apparently resolved since the issues of competence of personnel performance and capability of operating philosophy no longer appear to be relevant. Their research concludes that contrary to Aldrich's findings, organisations can work together within the framework of legal mandates and achieve co-operation.

The necessity contingency prompts us to recognise that relationships may be mandated between companies in a group by a higher authority (a corporate centre). However it brings into question the effectiveness of mandates in achieving co-operation between group companies and highlights the potential to heighten conflict between them.

2.1.2 Reciprocity

The contingency of reciprocity emphasises co-operation, collaboration and co-ordination among organisations. Relationships develop for the purpose of pursuing mutually common goals or interests. The major assumption underlying the reciprocity model according to Oliver (1990), is that resource scarcity induces co-operation rather than competition. The process of interaction is characterised by a balance of harmony, equity and mutual support. Partners to an exchange recognise that the benefits of interaction exceed potential disadvantages particularly in terms of the loss of decision making freedom and the cost of managing the linkage.

Co-operation therefore occurs when two or more parties have objectives that are mutually dependent. Bonoma (1976) argues that there are different levels of co-operation. Instrumental co-operation arises when parties hold different super-ordinate goals but can best meet them by co-operating in meeting some lower related goal. In contrast, collaborators may have common goals. A third form of co-operation is that in which the relationship becomes an end in itself.

Easton & Araujo (1992) recognise that an economic exchange relationship requires visible transactions among and between the parties and demands a minimum level of co-operation in order to take place. Easton & Henriques (1992) contend that the ultimate level of co-operation occurs when all parties are involved in joint activities in such a way that the rewards are substantial and are regarded as being equitably divided. Brito & Araujo (1993) note that companies can have common as well as conflicting interests and their relationships may be classified along a continuum from conflict to co-operation. Ford, Hakansson & Johanson (1986) recognise that all intercompany relationships have elements of both mutual and conflicting interests. Their relative importance depends on how the companies view each other. It is usually argued that a buyer seller relationship has its major mode as co-operation with conflict as a minor component (Easton & Araujo). Han Wilson & Dant (1993) in their review of purchasing trends in the US recognise that the benefits of closer co-operation between buyers and seller are manifest in shortening product development lead times, lower manufacturing and operating costs and improved management of quality and productivity.

In the context of intragroup relationships, firms expect synergies to accrue when two or more SBUs (strategic business units) co-operate and share resources (Harrigan 1985). Vizjak (1994) recognises that synergy potential is the benefits that can be realised by exploiting inter-relationships between business units within a group. Synergies can accrue by exploiting opportunities to capture a wider added value margin, or through the need to protect quality, proprietary knowledge or manufacturing integrity. Henke et al (1989) claim that an in house supplier is sometimes considered by a buyer to be an integral part of the buyer's company. The advantage can include the sharing of information the buyer obtains from outside suppliers. This information can help the in house supplier to neutralise any advantage an outside supplier might have. Harrigan notes that since most industries become the settings for volatile competition at some point in their evolution, the long term benefits of collaboration between business units are often those of intelligence gathering or quality control. (Harrigan 1985). In fact there may be strategic reasons for firms to encourage their business units to buy and sell in house even if such intra-firm transfers do not appear to make economic sense.

Whilst co-operation may be seen as beneficial for the group, it may not be easy to develop between individual operating companies. Corporate management may need to enforce policies that encourage operating actors to communicate, share inputs, outputs or other exploitable joint capabilities. Vizjak recognises that many companies have preferred to trade off their synergy potential in order to give business units greater dependence where autonomous business unit heads are compensated according to unit results. He notices that there are important obstacles to the implementation of synergy.

Bottom up strategic planning devotes little attention to co-ordinating business unit strategies as autonomous operating actors undervalue benefits that accrue not to them but to the firm as a whole. They invariably pursue strategies that make intragroup relationships more difficult to co-ordinate. The problem is exacerbated by vertical organisational structures where information, decisions and resources flow only vertically. Well defined boundaries can lead to strong identities in different business units encouraging the development of different cultures within the same corporation. Differences in management styles and operating procedures can represent major barriers to synergy realisation.

Vizjak recognises that a further barrier to intragroup co-operation is the uncooperative nature of business unit managers who are afraid to lose decision autonomy and fear being blamed for poor performance when they do not have full control over shared activities. This is acerbated when there are differences in size and strategy between business units and where the added value of the relationship accrues more to one party than to another. 'Horizontal strategies cannot succeed unless they are accepted by business unit managers' (Vizjak).

Indeed far from promoting co-operation, intragroup relationships can be arenas for competitive behaviour. Easton & Arujo (1992) recognise that competition occurs when two actors have objectives which are in conflict, but the locus of their objective is under the control of a third party (the centre). They note that one of the most interesting forms is the 'quasi competition' that can occur between divisions of the same firm. They indicate that anecdotal evidence suggests that co-operation between intragroup units may be difficult to achieve. Competition for internal resources can replace competition for external resources as the spoils of co-operation come to be divided. Therefore holding companies frequently prefer the cleaner option of arm's length competition.

The reciprocity contingency indicates that group companies may co-operate together because they perceive it in their best interests to do so. Synergies may result from co-operation between internal business units that benefit the group as a whole. However the parochial outlook of business unit managers and the potential for competition to develop between them may represent limiting factors in achieving co-operation in intragroup relationships.

2.1.3 Asymmetry

The contingency of asymmetry refers to relationships prompted by the potential to exercise power or control over another organisation or its resources (Oliver 1990). Thus companies can be viewed as political entities where power is an outcome of social exchange. A central assumption behind this is that resource dependence between actors is an important basis of power. Resource scarcity motivates organisations to attempt to exert power, influence or control over other organisations that are perceived to possess the required scarce resources. Power and dependence are thus twin concepts.

(Cunningham 1993). They are part of the atmosphere that affect, and is affected by, interaction of business actors.

An important determinant of the atmosphere notes Cunningham, is the power each actor perceives the other to hold. 'It is the perception of one's own power and that of one's opponent which dominates play'. The amount of power each member has (or is perceived as having) influences how relationships develop (Hanmer-Lloyd 1993). Power is one of the driving forces that determines the development of relationships. It is vested in all parties to a relationship to a greater or lesser extent, usually in differential amounts. A relationship where both parties are highly dependent on each other is termed 'highly cohesive'.

The development of business relationships almost always develops concerns of the loss of autonomy and control. The desire for control on the one hand and the reluctance to relinquish control on the other reflect contradictory (asymmetrical) motives in the decision of one organisation to react with another. This gives rise to various degrees of independence, dependence and interdependence between organisations which influence the scope for one party to exert power over another.

Power is a function of a number of variables both within, and outside of the organisation. At one level, power derives from a network position. A key determinant in this case is the structure of the market in which companies operate. Variables such as industry concentration are important determinants. Markets may be classified as supplier dominated or customer dominated. In many cases there may be no dominant party. Porter (1980) recognises that power of customers is mainly a function of: output purchased, availability of alternative supply sources and search and transaction costs involved in identifying and changing suppliers. Hallen, Johanson & Seyed-Mohamed (1991) conclude that customer importance is the most reliable indicator of supplier dependence and product complexity is the most reliable indicator of customer dependence.

Many writers have described power in terms of various power bases possessed or available to organisational members. These bases are defined by Cunningham (1993) as the resources that a party can exploit to effect the behaviour of others. Any circumstance or condition which makes one party dependent on another forms a basis of power. French & Raven (1959) identified a typology of five alternative bases of power between a source actor (S) and a receiver (R).

Reward power is based on R's perception that S has the ability to mediate rewards in R's favour. Coercive power however, is based on R's perception that S has the ability to mediate punishment for R. Legitimate power is based on R's perception that S has a legitimate right to exercise control over, and prescribe R's behaviour. Expert power is based on R's perception that S has some special knowledge or expertise that is of use to R. And finally, referent power is based on R's need to be associated with S.

When considering the contingency of asymmetry related to relationships between group companies, we must also take into account the power bases of the corporate centre, as well as group buyers and sellers, in mediating the behaviour of individual operating companies. The higher a unit's hierarchical position and thereby its authority, the greater its base for power (Anderson & Pahlberg 1992). Hickson et al (1971) recognise that a higher position in a hierarchy gives a unit better possibilities to survey the environment and also a greater ability to assess uncertainty.

The formal aspects of power can be countervailed by influence from subsidiaries. (Anderson & Pahlberg 1992). The possibilities to influence is a question of having a central position with access to resources needed by other parties. Henke, Krachenberg & Lyons (1989) note that it is important to understand how an in house supplier in an intragroup relationship will react to the possibilities of being replaced. This reaction is dependent in a large measure on their base which in turn impacts their capability to counteract potential replacement. They recognise there are instances where the in house supplier management approaches the corporate staff to convince them that it would be imprudent for the buying group to go outside of the supplier because of the overall implications of lost business to the group. This, they say, can raise a formidable hurdle to an external supplier. Cunningham (1993) notes that coalition formation is often done when companies belong to the same group. When work units are interdependent, influencing decision makers becomes more important and political activity is more likely (Welsh & Slusher 1986).

The contingency of asymmetry introduces the notion of power and dependence in intragroup relationships. It suggests that a corporate centre may be able to exert control over subsidiary companies from the possession of various bases of power including the power of legitimacy and the power to mediate rewards and punishments. However operating companies may also seek to exert influence over the centre and over each other where they have access to resources needed by other parties.

2.1.4 Stability

The contingency of stability is characterised as an adaptive response to environmental uncertainty in terms of resource scarcity and imperfect knowledge about the general environment including alternative exchange partners. These variables prompt organisations to value stability, predictability and dependability in their relationships with other actors. Easton (1992) recognises that the reduction in uncertainty and an increase in stability may be very valuable objectives for many organisations. Long term relationships provide continuity and stability that increases each partner's ability to reduce costs and increase effectiveness. Early IMP studies recognised the existence of stable long term buyer seller relationships as basic elements of industrial networks. In a study by Henke et al (1989) of companies competing against in house suppliers, one multinational organisation reported that although it had a policy of using external suppliers when they proved more efficient or beneficial than an in house supplier, replacement of an in house supplier had not occurred over the previous 15/20 years. Easton (1992) contends that the stronger a relationship, the more closely will that relationship affect the behaviour of the partners towards each other, although the existence of weak relationships is not insignificant.

A major element of stability is inherent in the bonds which develop between partners as they adapt to each other over time. In network terms, strong bonds provide more stable and predictable structures which are more likely to withstand change and disruption. Firms may be bound by contracts or ownership. Such bonds are highly visible but may be less binding than they outwardly appear indicating that other types of bonding may more substantial. (Easton 1992).

A major component of the process of bonding is the development of trust between buyers and sellers. In social exchange theory, actors mutually and sequentially demonstrate their trustworthiness. Adaptations in business relationships are elements in a trust forming exchange process (Hallen, Johanson & Seyed-Mohamed 1991). Trust can be regarded as an accumulating business asset contingent on past experience and history of the relationship. Kmann (1993) sees trust and loyalty to be closely linked. Trust is seen to be present in a relationship where: one actor does not check the arguments of his counterpart, where the parties are not expected to be disloyal and where there exists an open and confidential information exchange. Trust is an implied willingness to rely on an exchange counterpart in whom one has confidence (Moorman et al 1992). One of the functions of trust is to minimise the occurrence of opportunistic behaviour of each of the actors which reduces the cost of monitoring the activities of counterparts, generating economic savings and improvement in efficiency. The development of trust thus implies a diminishing need for formal contracts and control.

Relationships characterised by mistrust are problematic as actors must devise mechanisms to guard against opportunistic behaviour and therefore such relationships are more likely to be conflict ridden and expensive to manage. Mistrust is more likely to exist in coercive relationships (Hadjikhani & Sharma 1993). Trust may break down for a number of reasons including counterparts engaging in opportunistic behaviour, one of the parties not fulfilling promises made in the past, or for reasons beyond the control of both parties.

Promises need not be written and can be tacit and overt. Indeed written contracts hinder the growth of trust (Young & Wilkinson 1991) suggesting that trust may be more difficult to achieve in highly mandated intragroup relationship. Eccles & White (1988) recognise the potential for opportunistic gaming behaviour between profit centre managers in bringing disputes and disagreements to the notice of the centre, although such action has potential risk for both parties as stakes become raised overtime.

The contingency of stability indicates that the formation of bonds between group companies may significantly influence the longevity and stability of relationships between companies in a group. It also highlights the importance of the formation of

trust and the potential destructive aspects of opportunistic behaviour on the interaction of business units.

2.1.5 Efficiency

The view that efficiency may motivate the formation of trading relationships has traditionally been fashionable amongst transaction economists. (Williamson 1975, 1985). This notion is based on the assumption that inter-unit relationships in which supplier assets are specialised have lower transaction costs inside an organisation than when relationships occur between organisations.

Transaction costs are those costs associated with economic exchange that vary independent of the market price of the goods or services exchanged. (Robins 1987). They include search and information costs as well as costs of monitoring and enforcing contractual performance. Williamson identifies the uncertainty in determining appropriate (market) prices, difficulty in monitoring and enforcing performance and the necessity of specialised, transaction specific investments as major sources of transaction costs. He argues that these costs may be reduced by the organisation of exchange through a variety of non-market mechanisms including intra-unit transfers.

Many corporations face a variety of decisions whether their business units and subsidiary companies, should provide goods and services in house or purchase them from outsiders (Harrigan 1985). Organisations considering vertical integration must make decisions regarding the autonomy of these business units. The basic premise of vertical integration is that savings in the cost of transactions supersedes the autonomy needs of the business units. Vertical integration, according to Harrigan, will not allay transaction costs so long as business units and subsidiary companies negotiate with each other or with outsiders for some portion of their required resources. Only when a corporate decision has been made to force business units to deal with each other will the transaction costs Williamson describes be avoided. Indeed Harrigan concludes that if firms do not have internal mechanisms that balance the needs for SBU autonomy and corporate strategy requirements, they may exacerbate their problems with vertical integration. Although firms may integrate to escape associated transaction costs, there are costs to managing transfers across internal boundaries as well. If firms are unwilling or unable to bear these management costs , they may as well go to outside markets.

Many regard this as a fundamental weakness of the transaction cost argument. Transaction cost theory underestimates the cost of managing inter-unit relationships within an organisation. (Walker & Poppo 1991). The theory understates the bureaucratic and inter-unit bargaining costs that vertical integration entails. Evans & Grossman (1983) argue that a market-like incentive system is both more costly and less effective than the market itself. Eccles & White (1988) report that in a field study, most managers interviewed expressed the view that internal transactions were more difficult and costly than external ones. Eccles & White highlighted an irony that internal transactions often have a small discount (typically 5%-10%) applied to the 'market price' on the basis of the assumption that internal selling transactions are less costly owing to the lack of marketing and selling expenses, bad debts etc.

Eccles & White advocate higher transaction costs derive from problems of determining the price or value of the exchange. Vizjak (1994) claims that diseconomies may appear as a result of additional co-ordination and compromise between business units. The co-ordination process generates additional costs in areas such as scheduling, setting priorities or resolving problems.

Williamson (1975, 1985) also claims that internal organisation is not subject to the same kinds of difficulties characteristic of the market mechanism when disputes arise between the parties. Within internal organisations, when disputes arise, they are more easily resolved. When individuals pursue their own interests that are a disadvantage to the system as a whole, compensation can be varied by a central authority to reflect non co-operation; whilst requests to adopt a co-operative mode are more likely to be heeded. Again, many challenge this notion of organisational life. Morgan (1986) recognises the thrust of classical management theory is to suggest that organisations can or should be rationale systems that operate in an efficient manner as possible. He criticises classical theorists for giving relatively little attention to human aspects of organisation. Johanson & Mattsson (1987) highlight that among the assumptions in the transaction cost model is the postulate that mankind is basically 'opportunistic with guile and deceit'. Palmer et al (1987) highlight the parochialism of functional managers who have a natural tendency to behave opportunistically or to pursue self interest at the expense of the wider organisation.

The efficiency contingency suggests that the avoidance of transaction costs may be one reason for the formation of relationships between companies in a group. It also reinforces the notion of a corporate authority co-ordinating relationships between subsidiary units. However subsequent analysis has highlighted the importance of identifying potential barriers and blockages that arise from these relationships, which may inhibit the achievement of optimum efficiency identified by transaction economists. Evidence indicates that behaviour of business unit managers may be to pursue objectives that whilst maximising sub-unit efficiency, are not necessarily conducive with maximising the overall efficiency of the group as a whole. Finally, the efficiency contingency suggests that when conflicts arise, they may be more easy to resolve inside a group because of the position and authority of a corporate centre to impose its requirements over individual operating companies.

2.1.6 Legitimacy

The contingency of legitimacy is a function of organisational need to justify activities and output. These pressures, note Oliver (1990), motivate organisations to increase their legitimacy in order to appear in agreement with prevailing norms, rules, beliefs or expectations of external constituents. Therefore the establishment of relationships is motivated by the need to improve reputation, image and prestige.

Oliver notes that few studies relating to legitimacy as a contingency of relationship formation have been undertaken. In the context of relationships between companies in a group, the legitimacy contingency suggests that business units may seek to interact with each other because they perceive it is the right thing to do, or that certain benefits may accrue from being associated with other group companies (or the corporate centre itself). Prestige and image within the group may derive from interaction with other group members.

2.1.7 Contingency profiles

The previous sections have highlighted six potential contingencies that may influence the formation of relationships between companies in a group. Oliver (1990) suggests that these contingencies may interact and occur concurrently. The rationale for the formation and development of relationships, is often based on a multiple of contingencies. In a particular situation, some contingencies may be influential over others in deciding whether one company chooses, or is directed, to interact with another. However these contingencies are likely to be interactive over time. For example, a mandate imposed by a corporate centre in an intragroup relationship may reduce uncertainty by prescribing the fundamental rules of interaction. This may lead to an enhancement of mutuality and co-operation between the two operating companies. It could potentially improve the efficiency of the companies by reducing duplication of effort. But organisations that are constrained by mandated relations may posses less influence and reduced feelings of power (Oliver 1990) which potentially engenders conflict and asymmetry.

An organisation's commitment towards a particular relationship may change overtime as the influence and domination of certain contingencies changes. Thus an intragroup relationship initially based on mandated criteria of reciprocity and co-operation may shift towards asymmetry and conflict as parties seek to increase their power and control.

Oliver recognises that a key question for future research is when, and under what conditions, each critical contingency is more likely to lead to the development of various types of relationship. A key to understanding the dynamics of intragroup behaviour is to recognise whether these relationships are characterised by a profile of contingencies where one or two are particularly dominant. This provides a useful reference by which to compare and contrast intragroup interaction with other forms of relationship, particularly inter-company relationships between autonomous actors. Understanding the impact of each contingency and its interaction with others represents one method of characterising intragroup behaviour.

2.2 Relationships and networks

We now adopt a more macro perspective and look at relationships in the context of industrial networks. One approach is to regard these networks as aggregates of relationships between sets of connected firms or alternatively, sets of commercial relationships between firms (Hakansson & Johanson 1992). However Easton (1992), notes that the process of aggregation is unlikely to be simple or additive. 'Adding together' relationships provides the potential for structures to emerge which overlay the simple and apparent linkages. Easton recognises that relationships are important in determining network properties and a knowledge of their behaviour has important implications for understanding networks.

2.2.1 Features of industrial networks

Firms are organisations that require an inflow of resources from the outside (Hadjikhani & Sharma 1993) which they transform and transfer (Hakansson & Johanson 1992) to become inflows of other firms. In undertaking this process, firms attempt to ensure that some form of economic surplus (profit) and future survival is derived from these 'activity cycles'. To secure these resources, firms engage in resource exchange and in doing so, interact with other organisations who possess and control the desired inputs. Firms therefore engage in networks in which each organisation contributes resources and in turn receives resources (Hadjikhani & Sharma 1993).

Networks are developed and shaped overtime through multifarious sets of transactions between organisations (termed 'actors'). Network identity of an individual actor is developed through the transactions with other units (Forsgren & Johanson 1992). Through their activities in a network, actors develop relationships to secure access to important resources and sale of their products and services. Networks therefore consist of three basic elements: actors, resources and activities (Hakansson & Johanson 1992).

The result of network behaviour notes Kaman (1993) is synergistic surplus, where each actor attempts to maximise its share of that surplus. Actors are goal oriented and their general objective is to increase their level of control over a network. Struggles for control are one way of rationalising the dynamics of change in networks. The dilemma facing all actors is that they cannot fulfil their objectives without the assistance of other actors. A paradox arises where actors either remain independent to pursue their own means, or increasingly react with other actors and become more dependent on their actions and desires. Therefore each actor must balance dependency and freedom.

The nature of one relationship between two actors will influence all other actors in the network to a greater or lesser extent. A company is therefore a node in a widening pattern of interaction (Ford, Hakansson & Johanson 1986). This web of interaction is complex because in reality, it is difficult to define the boundaries of where networks begin and end. Johanson & Mattsson (1987) recognise that each firm in a network has relationships with customers, distributors, suppliers and sometimes direct relationships with competitors. Actors can also have indirect relationships with suppliers' suppliers and customers' customers

Companies interact with each other through a process of exchange. In industrial networks, actors are regarded as embedded in a system of social and economic exchange (Brito & Arujo 1993). Companies exchange goods and services, payments and loans as well as information, expertise and technical know-how. Social exchange relations evolve in a slow process (Johanson & Mattsson 1985). They relate to the creation of confidence and trust. The process of exchange and interaction creates adaptations in attitudes and knowledge of both parties. Either a mutual orientation develops, or the parties conclude that they are best served by developing relationships with alternative partners. In doing this, actors use their knowledge of networks as well as their relationships with other actors in order to increase their control.

An inter firm relationship is thus a mutual orientation of two firms towards each other (Johanson & Mattsson 1987). Whilst changing and developing, these relationships are often stable. Firms to a large extent buy from and sell to the same firms and compete with the same competitors. Transactions between firms take place within established relationships. Industrial networks are thus characterised by exchange which leads to the development of relationships. When these relationships are value creating for the individual parties, stability ensues. It is within this context that intercompany and intragroup relationships are developed and enacted.

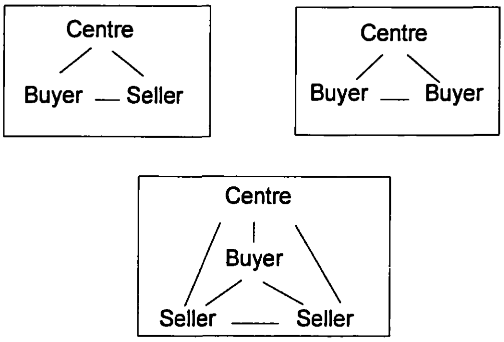
2.2.2 Networks and small nets

Easton & Henriques (1992) recognise that it is useful in industrial network research to study 'small nets' as an alternative to macro level studies of the network as a whole. Such analysis allows the study of general ways of handling network phenomena which is independent of scale. It can also provide data concerning the ways that network boundaries affect the ability to model and understand networks. Looking at the network as a whole may mean missing out on the subtle processes of change that may occur within and between actors. Certain types of phenomenon, for example competition between actors, can only be defined in terms of specific roles. To understand how organisations compete in networks it is important to select actors who are involved in similar competitive positions.

Easton & Henriques (1992) focus on two suppliers and one focal customer as their basic unit of analysis. In some cases, they note, it is more appropriate to study triadic rather than dyadic structures. Triads compared with dyads take into account and reflect network effects and therefore represent possibly the smallest unit of network analysis. There are numerous examples of triadic relationships occurring between tripartite organisations each in adjacent network positions. Examples include relationships between component supplier, manufacturer and retailer, or between manufacturer, wholesaler and distributor.

An intragroup relationship may be regarded as being built around a basic triadic structure of two operating companies and a corporate centre. The most common form of this unit occurs where the subsidiary companies operate in adjacent network positions, giving the potential to form customer supplier relationships. An illustration of this structure, and other triadic linkages that potentially occur within a group, are provided in Fig 2.1. The focus of this study is on the first of these (buyer, seller and centre). The reason for this is that these relationship structures are the ones most likely to involve significant economic exchange between group buyers and sellers. Fig 2.1 illustrates the important point that all actors within the group are connected to a central actor, and through this linkage, to each other.

Fig 2.1



Whilst the triad forms the basic unit of analysis, 'near' actors will also be influential in shaping intragroup interaction. Of particular importance are alternative suppliers to the buying company which are competitors to the selling actor and also alternative customers of the selling company which are competitors to the buying actor. Other subsidiary companies within the group may also have an influencing effect on the triad, either directly or indirectly.

Network analysis indicates that intragroup relationships are unlikely to be enacted in isolation but in a complex web of interaction where group actors are connected both directly and indirectly to other actors that define a network. Relationships between two actors inside a group are likely to be influenced by other internal relationships inside the organisations as well as relationships between actors outside its boundaries. Network analysis also suggests that the study of small nets may represent a useful analysis tool when investigating relationships where actors are connected through common ownership.

2.3 The context

The aim of this chapter has been to place this study in the context of current and previous works relating to intragroup relationships.

We have seen that whilst academics have recognised the existence of these relationships in the general body of marketing literature, there have been relatively few studies that have taken intragroup relationships as their central theme. One of the aims of this thesis therefore, is to fill a gap in the literature on business relationships by giving prominence, and highlighting the importance of interaction between companies in a group.

In describing relationships generally, past studies have provided a number of useful concepts and analytical tools by which to explore and characterise relationships that form in a group setting. We have seen that the contingencies of necessity, reciprocity, asymmetry, stability, efficiency and legitimacy are likely to be as applicable in characterising the formation and development of intragroup relationships as they are in describing intercompany interaction between unrelated parties. We have also postulated that intragroup interaction may be described in terms of a specific profile of these contingencies, that some how make them unique.

We have highlighted that studies of industrial networks are also useful in describing the nature of intragroup interaction. These prompt us to view intragroup relationships within a complex web of action and interaction where group actors are both directly and indirectly connected to other actors, internal and external to the group. Networks simultaneously constrain and define the potential for actors to achieve their goals and objectives. They also prompt us to question the true nature of organisational boundaries, that have traditionally defined the existence of a group.

We now go on to utilise and apply these concepts and ideas to develop a series of proposition that explain how actors develop and manage relationships in a group setting.

Chapter 3

Development of propositions about intragroup relationships

Introduction

The aim of this chapter is to develop a series of propositions about intragroup relationships. The purpose of these propositions is to help describe and account for the behaviour of actors involved in relationships within a group. These propositions are tested using a methodology developed in the next chapter.

The chapter draws on a number of the concepts identified in the literature review presented in Chapter 2. These are expanded and developed to apply to the group situation. Development of the propositions has also been supported by conversations with managers involved in intragroup relationships. Over twenty semi structured interviews were undertaken prior to the main body of the field research to initially assess the applicability of these concepts to relationships between group actors.

The propositions concern the following aspects of intragroup relationships:

- The influence of the centre.
- The effectiveness of mandates.
- The influence of other actors inside and outside of the group.
- Information exchange between actors.
- Opportunistic behaviour of actors.
- Rivalry between actors.
- Conflict and conflict resolution.

The above points capture the main themes identified in initial research interviews, indicating what respondents perceived were important factors influencing the formation and development of relationships inside a group.

3.1 Influence of the centre

In the previous chapter we introduced a number of concepts that were used to describe relationships in the context of industrial networks. We identified that triads compared to dyads potentially represent the smallest unit of network analysis and can be regarded as useful basic units in network research. We saw that applying this concept to the group situation suggests that an intragroup relationship can be regarded as consisting of a basic triadic structure of two operating units and a corporate centre. A common form of this analysis unit occurs where the subsidiary companies operate in adjacent network positions forming customer-supplier relationships inside a group.

Outside the context of the group situation, interaction between the subsidiary actors is likely to be subject to what might be termed normal network influences. Network theory suggests that these actors will develop relationships with parties that best satisfy their network objectives. Both parties will continue to interact with each other if they perceive benefits of exchange as value creating (by whatever means they measure it). Whilst actors are goal oriented, they recognise that they do not necessarily achieve these goals by interacting with each other.

This situation is modified in the context of intragroup relationships. The key to developing an understanding of intragroup behaviour is to recognise how the situation is influenced by the presence of a central actor. This in turn relates to the resources controlled by the centre and the activities it undertakes. Easton & Henriques (1992) note that when the unit of analysis shifts to the triad, both the mediating impact of the focal actor (in this case a corporate centre), and the totality of the relationship among all three participants become important areas for analysis.

Whilst operating actors are likely to be concerned with individual network positions, a corporate centre will be more sensitive to the performance and position of the group as a whole. It may regard relationships between companies inside the group as a way of avoiding transaction costs and increasing organisational efficiency. Similarly, it may value the co-operation between group actors to achieve synergies that capture a wider added value margin. Under these circumstances it may exert its authority to mandate relationships between group actors that may not have occurred voluntarily. This in turn restricts their choice of partners and is likely to influence their patterns of interaction. Corporate mandates may therefore represent important factors in determining the behaviour of actors inside a group.

Our first proposition **(P1)** therefore contends that:

Intragroup relationships are built around a basic triadic structure where interaction between buyers and sellers (the operating actors) is influenced by the presence of a central actor in terms of the nature and extent to which it mandates interaction between them.

3.2 The effectiveness of mandates

Our second proposition concerns the effectiveness of mandated intragroup relationships. We use the term 'effectiveness' in the sense of whether operating actors comply with, and obey the terms of mandates issued by corporate centres. We identified in the literature review that a number of writers have questioned the effectiveness of mandates in achieving co-operation between actors, pointing out the potential for heightened conflict between them. Operating actors may perceive that mandates which direct them to interact with other group companies may not be in their individual interests, even though they may benefit the group as a whole. They may value relationships with other network partners outside of the group. Therefore the effectiveness of a corporate mandate will be influenced by an operating actor's perception of the meaning of the mandate from its position.

The capacity for a corporate centre to impose mandates over operating actors will depend on the power base of the centre. We have seen that when considering the contingency of asymmetry, we must take into account the power bases of the corporate centre as well as those of group buyers and sellers, in mediating the behaviour of individual operating companies. The power of legitimacy as well as coercive and reward power are likely to represent important sources of power for the centre and will be influential in determining the success or otherwise of mandated directives.

Our second proposition **(P2)** is divided into two parts and states that:

2A - The effectiveness of mandated rules governing intragroup interaction is a function of:

- **Operating actors' recognition of the authority of the centre to impose mandates on group companies.**
- **Each actor's perception of the meaning of the mandate.**
- **The strength of associated policing and control mechanisms.**

2B - Whilst the centre may mandate interaction between operating actors for the benefit of the group, operating actors themselves may favour external relationships over internal relationships in pursuit of their network goals and objectives. Under these circumstances:

- **Operating actors may seek to influence the centre to modify the terms of the mandate in ways advantageous to themselves.**
- **Operating actors may seek to challenge or circumvent a mandate that limits their interaction with counterparts external to the group.**

3.3 Influence of other actors

Whilst organisational hierarchy focuses on vertical relationships between the centre and its subsidiaries, the study of networks recognises the potential for horizontal relationships between subsidiary units. (We use the term 'horizontal relationship' in this context to describe internal buyer-seller links. 'Vertical relationships' depict links between subsidiary units and a central actor. We acknowledge that the terms 'horizontal' and 'vertical relationships' may have different meanings outside the context of intragroup relationships. E.g. vertical relationships between buyers and sellers in a value adding chain).

Actors within a network can take on a variety of roles depending on the viewpoint taken. Johanson & Mattsson (1987) recognise that each firm in a network has relationships with customers, distributors, suppliers and sometimes direct relationships with competitors. Actors can also have indirect relationships with suppliers' suppliers and customers' customers. A subsidiary company inside a group can be a supplier to, or a customer of, another subsidiary. Subsidiary companies may be complementary suppliers to a common group buyer. Subsidiary companies may potentially be direct competitors.

Whilst the triad forms the basic unit of intragroup analysis, we must recognise that 'near' actors will also be influential in shaping interaction between group companies. Of particular importance are alternative suppliers to the buying company which are competitors to the selling actor and also alternative customers of the selling company which are competitors to the buying actor. Other subsidiary companies within the group may also have an influencing affect on the triad, either directly or indirectly. Any change instigated by one subsidiary may indirectly affect the position of all subsidiaries. Thus the allocation of scarce funds by the centre to one subsidiary automatically limits the funds available to others. We must therefore take into account the influence of actors outside of the triad when studying the behaviour of actors in intragroup relationships.

Proposition **(P3)** is also divided into two parts and contends that:

3A - Interaction between operating companies in an intragroup relationship is conditioned by:

- **Indirect links with other group companies outside of the basic triad.**
- **Direct and indirect links with alternative customers and suppliers outside of the group.**

3B - Internal and external customers of the supplier may be competitors of each other in downstream markets. Similarly, internal and external suppliers to the buyer may also be competitors. Therefore:

- **Relationships between operating actors conditions potential interaction with alternative buyers and sellers.**
- **Relationships between alternative buyers and sellers may also affect relationships between the operating actors.**

3.4 Information exchange between actors

The forth proposition concerns the affect of the group environment on the flow of information between actors.

Episodes which occur in business relationships often involve a series of exchanges between the parties. (IMP Group 1982). One of the reasons for the existence of long term relationships is that customers and suppliers require extensive knowledge about each other which may be complex and difficult to acquire. Whilst the transfer of goods and services often represents the core of exchange process it is usually accompanied by financial, informational as well as social exchange elements.

Information is the 'currency' of inter firm relations which all exchange processes operate through (Easton 1992). The collection of information is an activity that actors engage in to reduce uncertainty about trading partners. Information creates its own networks; and the relative ease of exchange and transmission means that it can flow around these networks very efficiently. Actors acquire information to build knowledge about other actors. Knowledge may therefore be regarded as an investment that a firm can make in respect of a particular counterpart. (Easton 1992).

The flow of information is influenced by the way actors are connected to each other, and to more distant actors within a network. In intragroup relationships, whilst information may be exchanged directly between operating actors, there may be opportunities for these actors to communicate indirectly through the corporate centre. At the same time, the centre will have discrete exchange relationships with each of its operating actors. A centre therefore represents an additional node in a communications network, potentially connecting all actors within the group. The existence of additional communication channels has the potential to increase the information flow between actors and enhance the level of knowledge group operating companies have about each other.

We therefore contend in proposition **P4** that:

The group context is likely to increase the level of information that each party has about the other and the breadth of interaction between them. This is likely to affect the perception of each other's position.

3.5 Opportunistic behaviour of actors

We saw in the previous chapter that a major component of the bonding process between actors is the development of trust. Trust is seen as a willingness to rely on a counterpart in whom one has confidence in, thereby reducing the need for formal contracts and control measures. One of the causes of the breakdown of trust occurs when one, or both of the parties in a relationship engage in opportunistic behaviour to exploit transaction partners as a means of gaining short term advantage.

A prediction of transaction economists is that 'locked in' partners can become the victims of opportunistic behaviour. A lock in occurs where resources are dedicated to certain business relationships that are difficult to recover or redirect. Actors may also be 'locked together' when they are mandated to interact with each other. We must therefore recognise the opportunity for group operating companies to behave opportunistically where they are locked together in a mandated relationship. Trust may be more difficult to achieve because of the propensity for operating actors to behave opportunistically in their dealings with other group companies.

We therefore contend in proposition **P5** that:

In a situation where the centre mandates interaction between the operating actors in an intragroup relationship, the mandate may affect the nature of the relationship. Actors may regard the terms of a mandate as an opportunity to behave differently towards a partner.

- **An intragroup seller may give proportionately less commitment to an intragroup buyer in terms of service, quality and other exchange variables.**
- **An intragroup buyer may demand a proportionately higher level of commitment from an internal seller.**

The potential to opportunistically exploit the terms of a trading mandate will therefore influence the level of trust between actors in intragroup relationships.

3.6 Rivalry between actors

We also saw in the previous chapter that intragroup relationships may be arenas for competitive behaviour where quasi-competition can develop between divisions of the same firm. Competition occurs when two actors have objectives which are in conflict but the locus of their objectives is under control of a third party. Thus operating companies may be in competition for resources within the group that are controlled by, and allocated from the central actor.

The relationship between the central actor and its operating subsidiaries is essentially one of resource exchange, in the same way that exchange takes place between subsidiary units. Resource exchange interconnects the actors within the triad and develops dependence. The centre provides the capital inputs that individual actors require to grow within their networks. By their nature, these resources are finite potentially leading to competition between the beneficiaries who may also be parties in an intragroup relationship.

A central actor may also have control over other resources valued by subsidiary actors, not least remuneration benefits and advancement opportunities available to senior managers within these units. This can add a competitive dimension between managers within operating subsidiaries who may perceive themselves as rivals. This is further likely to influence the level of trust between the parties because actors are less likely to trust trading partners who they also consider to be their competitors.

We must also recognise that one of the consequences of the triadic nature of intragroup relationships is that interaction between operating actors is likely to be more visible and transparent to senior management at the centre when compared to relationships with other partners external to the group. This provides an opportunity for the centre to assess the effectiveness of managers. It also presents an environment where rivalry can be expressed in terms demonstrations of superiority and one-upmanship. Managers may therefore feel more exposed and at risk in this environment which will also influence the level of trust between the parties.

Proposition **P6** therefore proposes that:

Trust between parties within intragroup relationships may be affected by the influence of the centre. For example:

- **Operating actors may regard themselves in competition with each other for group resources and rewards.**
- **Operating actors may perceive that their competence and performance is being evaluated through their involvement in the relationship.**

Therefore, individual actors perceive the relationship as involving higher personal risks.

3.7 Conflict and conflict resolution.

Elements of conflict are inherent in all business relationships and have to be regulated and tolerated permanently. Actors have shared and contradictory interests; if they do not learn how to deal with the contradictory ones, the outcome is conflict. (Hakansson & Gadde 1992).

The way conflict is managed and resolved between group operating actors is likely to be influenced directly or indirectly by the presence of a central actor. Firstly, conflict resolution is likely to be affected by a mandate. Disputes are likely to be more difficult to resolve where actors are locked together by a mandate that prohibits them from withdrawing from their relationships. This situation will be problematic where intense and long term disputes characterise the atmosphere in which interaction takes place between the actors. Actors may also perceive that withdrawing from relationships with internal partners may have negative consequences in terms of the reaction of the centre where group prosperity is compromised. Actors may therefore be locked together through less formal ties.

We saw when discussing the contingency of efficiency that conflict is more easily resolved in the group situation. Williamson identifies that when disputes arise between parties, compensation can be varied by a central actor, and requests to adopt a more co-operative mode more likely to be heeded. Corporate centres may therefore be motivated to regulate conflict between actors in intragroup relationships.

We therefore contend in proposition **P7** that:

The resolution of conflicts between actors in a group may be affected by a mandate because:

- **Termination of their relationship may not be allowable under the terms of the mandate.**
- **Intragroup actors may regard acts of deselection as involving personal risks to themselves.**
- **The centre may take some role in resolving conflicts between operating actors.**

Therefore exchange may take place between operating actors even within an atmosphere characterised by high levels of conflict and disagreement.

3.8 Conclusion

We have used this chapter to generate a series of propositions that describe various characteristics of intragroup relationships. These propositions have been derived from:

- Review of the literature on business relationships and related areas.
- The author's intuitive ideas about intragroup relationships.
- Conversations with practitioners involved in managing and co-ordinating intragroup relationships.

We have identified various themes and ideas that marketing academics have developed to generally describe business relationships. They have provided us with a number of useful concepts and analytical frameworks which have been used to derive the propositions presented in this chapter. Our analysis would suggest that whilst intragroup relationships are not 'fundamentally' different from other types of business relationships, they do have certain characterising features that make them somehow different and distinct. The propositions help us to differentiate these points of uniqueness and distinction.

Each proposition provides us with a framework for the analysis of data on various aspects of intragroup relationships. We now go on to develop a methodology to support their validity.

Chapter 4
Methodology

Introduction

This chapter describes the development of a methodology used to examine the features of relationships between companies within a group. The propositions put forward in the previous chapter indicated the different factors which require investigation in order to understand the nature of intragroup relationships. The methodological task is therefore to develop a process which explores these propositions and provide a judgement on their validity in one particular case, that of a corporate group called Agrifood. The first part of the chapter covers the factors that have influenced the selection of the methodology used to survey intragroup relationships. The second part deals with the practical way these techniques have been applied in the field research and data analysis.

4.1 Selection of methodology

4.1.1 Methodological orientation

A fundamental decision facing researchers at the beginning of research projects is whether to orientate their design to follow a deductive or inductive stance. Deduction is concerned with explanation generated from causal relationships or universal laws. Highly structured research methodology is employed to ensure replicability to allow the testing of hypotheses in highly defined and controlled situations. A deductive orientation is captured in the rigour of laboratory experiments.

Many researchers have cast doubt on the applicability of such methods in complex social situations. True experiments by their very nature can only involve a small number of people which poses problems of how findings can be generalised to wider populations. Lewin (1946) stresses the limitations of studying complex social events in a laboratory and highlights the artificiality of isolating single behaviour elements from an integrated and complex system. The presence of an experimenter or researcher can unintentionally influence events and distort results. 'The behaviour of participants in laboratory studies is concrete, quantifiable and analysable, but what goes on in their minds is difficult to assess'. Ford (1980).

The focus of this project has been to invoke an essentially inductive orientation to develop explanation through understanding of subjective meaning systems. (Although in the latter stages of the research we seek to identify a set of generalised findings which we speculate could apply to relationships inside other corporate groups). An inductive stance is committed to research in everyday settings. The social world cannot be understood in terms of relationships that do not take into account the context in which actions are based, and an actor's interpretation of events in terms of his or her meanings, intentions, motives, attitudes and beliefs.

Much marketing research notes Ford (1980) is concerned with the measurement of attitude as predictors of behaviour. However Harre & Secord (1972) in their 'common sense' principles note that there is a difference between attitudes which are avowed in quiet discussion (in standard questionnaires or exploratory interviews for example) and those which are acted out in real life situations. They note that there is also a difference between attitudes that are manifest in hot situations (e.g. events that may incur high rewards or punishments to the individual involved) and attitudes that are manifest in more mundane and repetitive circumstances that have less significance to individuals and where commitment may only be theoretical. Ford (1980) advocates that '.... attitudes should be observed in situations approximating as far as possible to a context of genuine commitment'.

It was against these contextual limitations that methods primarily based around questionnaires or techniques that record responses to various statements were deemed inappropriate to the study of intragroup relationships. Whilst these methods provide data which is relatively easy to analyse, it was recognised from initial interviews that this type of questioning would produce a superficial and potentially erroneous idea of respondents real views. The situation is well summed up by Oxenfeldt (1964) when he observes that 'Every student of business practice ..... should recognise the difference between what executives actually do and what they believe they do; both are often different from what they say they do'. A potential solution to 'Oxenfeldt's dilemma' is to undertake a large number of in-depth interviews however this type of methodology is recognised by

Oxenfeldt as 'costly and cumbersome' and has the drawback of lack of uniformity of procedure in subsequent analysis.

4.1.2 Scope of research

An early decision in the design of methodology was to concentrate research in one focal organisation. The objective was to achieve the depth of analysis inherent in a focused case. Given the under researched nature of the subject and its limited treatment in the literature it was felt that pursuit of a broad understanding of the principal characteristics of intragroup relationships was preferential to an in-depth analysis of any particular facet, derived over a large number of individual studies. Also, the alternative of thinly spreading resources over a very large number of organisations was believed to be less desirable and had the danger of generating data that was likely to be regarded as trivial.

As generalisibility was recognised as a particular concern of this type of methodology, small scale studies were also undertaken in a number of secondary organisations to compare and contrast results from those obtained from the focal organisation. The danger of 'over generalising' the findings over a wide number of organisations should therefore be undertaken with caution. Whilst it has been traditionally prudent to recommend further studies to confirm and validate the main findings of a particular study, the writer advocates further research in the area of intragroup relationships across different types of organisation in contrasting industry settings.

Examples of 'small studies' are not uncommon in ethnographic research. Gill and Pratt (1986) favoured in-depth treatment of a limited number of cases in an under researched and relatively novel area. The difficulty of generalising from the small sample chosen was a recognised drawback. Mintzberg (1979) has argued that small samples, such as groups of five managers, especially in exploratory research should be encouraged rather than '..less valid data that were statistically significant'. Patton, Puto & King (1986) in their study of group buying decisions recognised the value of intensive case study examination of a few co-operating industrial firms engaged in modify rebuy selection decisions.

A further consideration in the decision to focus on one organisation was the issue of access. Gill & Johnson (1991) note that access is time consuming and often difficult, particularly when the researcher lacks powerful support. In this case, the researcher had been a member of the focal organisation for a number of years, thereby facilitating access to individual respondents. Gill & Johnson (1991) further note that the use of all possible sources, including business contacts, has frequently been found to be useful in successful entry strategies.

The focal organisation under investigation, recognised the potential value of the research and was supportive across all aspects of the study. There is an increasing tendency these days to preferentially support research that is devoted to problems judged to be important and of practical application. (Gill & Johnson 1991). Sponsors within the organisation were enthusiastic to obtain feed back on progress and findings. There were however occasions during the study when the researcher was reluctant to share provisional findings for fear of invalidating later stages of the investigation. The issue of confidentiality was recognised as a area of sensitivity. It was agreed at the beginning of the project that the identity of all organisations had to be disguised and the anonymity of individuals preserved. Thus references to the various companies described in the study is done through the use of pseudonyms.

4.1.3 Potential sensitivity of intragroup relationships

The issue of access is related to the perceived sensitivity of intragroup relationships. Gill & Johnson (1991) note that topics concerned with sensitive areas such as redundancy, competitive markets or managerial stress, while potentially interesting and useful research areas, may be difficult to access. They comment that potentially the most rewarding research topics are often those which are also the most inaccessible requiring ingenuity and persistence in methodological design and implementation.

Renzetti & Lee (1993) define a sensitive topic as '.... one that potentially poses for those involved a substantial threat, the emergence of which renders problematic for the researcher and/or the researched, the collection, holding and/or dissemination of research data.' They recognise the areas where research can be threatening include:

- Those where the research intrudes into the private spheres of individual respondents or examines deeply personal experiences.
- Those where the study is concerned with deviance and social control.
- Those which impinge on the vested interests of powerful persons.
- Topics which deal with matters sacred to those being studied which they do not wished profaned.

A study of intragroup relationships was recognised as being sensitive to the second and third of these categories.

The relationships examined in the study were live and active commercial relationships where the parties - group buyers and sellers - may be withholding information from a trading partner as a normal aspect of competitive interaction. Certain data was therefore likely be considered sensitive, for example, interaction with other suppliers and/or customers outside of the group. In this respect, respondents would have to divulge information that could be of value to a trading partner who was also a respondent within the survey.

Renzetti & Lee (1993) recognise that different social groups attribute different meanings to requests for participation in research. It may be that a study seen as threatening by one group would be thought innocuous by another. Thus whilst the centre in an intragroup relationship may be very supportive of such a study, individual operating companies may be suspicious of its motivations. It was recognised that group companies involved in intragroup relationships could be following agendas that were in contradiction to group policies and mandates. Thus whilst on the surface, a company or individual may espouse the virtues of collective co-operation, in reality they could be adopting tactics to achieve the opposite. To obtain admission of this was seen as particularly difficult. In terms of methodological design, it was recognised to be important to adopt research tactics that could gain access to and expose 'the darker side' of intragroup relationships.

For respondents to admit the existence of such behaviour put them in a potentially threatening position even to the point of endangering future career opportunities if such views became widely known. This was particularly evident in some of the early exploratory interviews. Sensitive topics present problems because research into them involves potential costs to those participating in the research (Renzetti & Lee 1993). There was therefore an issue around the trust and integrity of the researcher in convincing the respondents of absolute confidentiality of the research data. This was regarded as vital to avoid potential concealment and dissimulation by respondents. The fact that the researcher was also a member of the focal organisation in some respect facilitated that confidentiality but to other respondents potentially represented a threat.

In studying sensitive relationships, Finch (1987) has advocated the use of the vignette technique to mimic experiments. A basic story is presented that remains constant, but the outcomes are varied and responses recorded and analysed in survey fashion. She notes that 'Asking concrete questions about third parties has the affect of distancing the issues'. Questions become less personally threatening. The technique also has the advantage of breaking away from the limitations imposed by personal experiences and circumstances.

4.1.4 Position of the researcher

Issues of sensitivity relating to the fact that the researcher was also a member of the organisation under investigation have already been mentioned. Such a situation is not without precedent in other studies (Dalton 1959, Golding 1973), and was an important consideration in the design of the methodology used to investigate intragroup relationships.

A major advantage of having been involved in these relationships for over twenty years, was to be in a position to draw on previous experiences and observations to develop initial themes and ideas, identify major issue areas and speculate on motives driving interaction between the various actors. This was particularly important at the beginning of the study for identifying and developing broad areas of investigation during initial exploratory interviews.

Being personally involved in relationships inside Agrifood had a number of other advantages. It was recognised that the experience of the researcher could have a positive affect of making respondents reticent to deliberately misrepresent situations and events, recognising that this could be identified. Douglas (1976) notes that participant observation can enable the researcher to penetrate '...various complex forms of misinformation fronts, evasions and lies that are considered endemic in most social settings including business'. He advocates the 'immersion in and saturation by the setting through allowing oneself to experience that setting as much as possible in the same way as any other organisational member'. Similar sentiments are echoed by Kamann & Strijker (1992) who advocate '...familiarity and inside knowledge are the requirements for successful network analysis'. And Erikson (1964) notes that '...one can study the nature of things by doing something to them, but can really learn something about the essential nature of living beings only by doing something with them or for them'. Insider knowledge enables access to what people actually do (the informal organisation) as opposed to what they may claim they do (as influenced by the formal organisation).

Whilst participant observation allows the researcher to 'live' the experiences, there is the danger that in becoming embroiled in the everyday lives of subjects the researcher develops biases and frames and is unable to take a dispassionate view of events. Throughout the study it was deemed important to be continually reflective and attempt to understand the potential affect of the researcher in the research setting. Alderfer & Smith (1982) in their study of intergroup relationships advocate that the '...traditional goal of objectivity by which investigators separate themselves from the phenomena they study should be replaced by a notion that calls on researchers to search for their own biases and then to build compensatory mechanisms into their research programmes'. Thus whilst familiarity and previous experience were useful in the early stages of the programme it was important during the main body of research to move to a more structured analysis where direct participation of the researcher was minimised as much as possible.

4.2 Methodological Design

4.2.1 Scenarios and vignettes

The approach adopted in this project has been to attempt to determine expectations in certain structured and realistic situations, a method used by social scientists over many years. (Harre & Secord 1972, Osgood, Saporta & Nunnally 1956).

The methodology adopted uses a form of the vignette introduced earlier, termed 'scenario analysis'. Vignettes, notes Finch (1987) are short stories about hypothetical characters in specified circumstances to whose situation the interviewee is invited to respond. The situation may be short and simple or long and complex. At its simplest a vignette can be a one-sentence description of a hypothetical situation.

It is more common, notes Finch, to base the analyses of vignettes on a set of fixed choice questions e.g. by asking simple yes/no/don't know responses to each. Less common, is a non-directive use of the technique in the form of open ended responses. Used in this open ended form, scenarios allow respondents to define the meaning of a particular situation. Scenario analysis may therefore be regarded as an open ended application of the vignette technique. Scenarios make possible a particular form of open ended questioning which is situation specific. The scenarios constructed in this analysis depict structured situations that representatives would recognise as realistic. In certain cases, they may have been described by respondents in initial exploratory interviews. They are hypothetical in the sense that they make no reference to specific trading relationships or named individuals. (For fear of compromising the confidentiality and trust of respondents.) In all other aspects, they could be regarded as realistic.

The general technique has a number of important advantages:

- Scenarios enable the researcher to develop questions in survey format that are of a concrete nature which helps to avoid a series of answers that are simply bland generalisations that may be difficult to interpret. Because the situations described by the scenarios are 'realistic', this increases the likelihood of eliciting responses based on respondents' experience in confronting similar situations or events to those depicted in the scenarios. This was designed to decrease the likelihood of respondents giving responses based on abstract hypothetical opinion and speculation.

- Defining hypothetical situations has the effect of distancing the issues from the respondent and his or her relationships with other people. This makes the questions less personally threatening and therefore may be more likely to elicit real responses. Scenarios can be based around fictitious characters to which questions can be asked in the form of 'What should these people do next?' In this project, the sensitivity of the issues were judged to be of a nature that respondents could be asked how they would react personally to the scenarios described. The need to distance sensitive issues and alleviate potential threats of the enquiry (as perceived by respondents), was the main reason why the scenario method was preferred to more conventional survey methods.

- Scenarios offer the opportunity to explore issues in a way which approximates to the complexities with which these issues are surrounded in reality. These complexities are often disregarded in other forms of survey analyses, and particularly in fixed response questionnaires. Scenario analysis offers a way of studying complex issues and at the same time capitalising on the strengths of survey methods. Finch (1987) notes that data can be more reasonably used as the basis for generalisations about a given population.

The use of the scenario technique however also has limitations which are important to understand and recognise. Firstly, used in this way, they are subject to the general criticisms of open-ended questions, namely that one sacrifices some comparability between respondents. Secondly, there are technical issues based around the construction of the scenarios whether they can be readily followed and understood by the respondent. This can be alleviated to some extent by pretesting each scenario with a number of respondents prior to the main body of research. Also, whilst the scenarios should be constructed to reflect the issues under investigation, they must be suitably open-ended and non-directional so as not to lead the respondent to a particular line of thinking and bias responses. It is therefore important to strike a balance between completeness and open-endedness.

In scenario analysis it is difficult to specify which specific element in a hypothetical situation triggers which particular response. This is partly because it is difficult to identify additional details and assumptions that are being 'filled in' by respondents that are not directly conveyed to the researcher. Whilst it is possible to vary systematically a number of elements in a particular scenario, this has the problem of generating a large number of scenarios which may be unmanageable. This problem can be alleviated to some extent by building common elements into different scenarios which act as a check on each other in subsequent analysis. However at best, scenario analysis can be used to elicit general tendencies rather than to specify direct causal connections.

The scenario-based methodology used in this study consisted of the following steps:

- Respondent identification and selection.
- Exploratory interviews.
- Scenario identification and construction.
- Scenario interviews.

4.2.2 Respondent identification and selection

Identification and selection of respondents for initial exploratory and main interviews reflected the following criteria:

- The need to include managers who have, or have had, significant involvement with intragroup relationships as a formal part of their job functions. They would therefore be able to express opinions based on real experiences rather than second hand hearsay.

- The need to ascertain views of the three main categories of actors: intragroup buyers, sellers and corporate management at the centre.

- The need to reflect views across a number of different relationships, including companies in different divisions within the group, or between companies within the same division.

- The need to ascertain views at various levels of seniority including main board directors, business unit and functional managers (mainly in sales, purchasing, marketing and technical functions).

Twenty five respondents took part in a series of initial exploratory interviews. These were all selected from the focal organisation. The number here was not predetermined. Interviews ceased when no new insights were being gained and the subject matter was becoming repetitive rather than generating new themes or ideas.

Forty respondents were involved in the main scenario interviews of which thirty came from the focal organisation. Ten respondents were interviewed from other organisations.

A sample size of 40 was deemed to be large enough to allow the use of certain statistical tests later in the analysis. Respondents within Agrifood in both stages of the research represented business units throughout the corporation as well as corporate management situated at the centre. Further details of respondent organisations, business units and respondent functions are presented in Appendix 2

Responses are the views of individuals rather than those of specific business units. Individuals are taken to be a representative sample of the business unit. No comparison of responses was made in the study between respondents of the same business unit. In a significant number of cases, respondents were involved with a number of internal relationships inside Agrifood (and other groups), rather than a single, specific relationship. In these cases, their opinions were taken as a composite view.

4.2.3 Initial exploratory interviews.

The first series of interviews in the study were open ended and unstructured. Issues and themes identified in the literature search and previous experiences of the researcher were used to generate a list of open ended questions. This form of the interview was designed to avoid artificial limitations and allow the respondent to answer in his or her own terms. Also, the interviewer was able to request clarification on certain issues or explore interesting topics in more depth, as seemed appropriate. Thus data was gathered at this stage with no special concern for consistency. The idea was to elicit information with greater depth and meaning revealing insights into pertinent issues. The issues were expressed in the respondents' phraseology.

The duration of the interviews averaged around 45 minutes to one hour and were recorded on tape. They were deemed complete when issues became repetitive between respondents and no new topics emerged.

Most of the interviews were transposed to word processor where various themes were identified and coded, producing a number of categories. The interviews were subsequently merged and sorted by category. Examples of these categories included:

Influence of the centre.	Influence of the mandate.
Risk & trust	Distance & communication.
Conflict resolution & deselection.	Value of the relationship.

Following this first stage categorisation, a number of propositions were developed identifying those variables responsible for influencing the behaviour of intragroup actors. These propositions were presented in the previous chapter.

4.2.4 Scenario identification and construction

The next stage of the project was to develop a range of scenarios to cover the issues identified earlier in the process. Generally, each scenario focused on a particular event or issue, however in some cases, a number of scenarios were used to examine a single issue from different perspectives. This was useful to monitor the consistency of respondents. In other cases, there was considerable overlap between scenarios. Some scenarios were written from the perspective of the buying company and in other cases, from the perspective of the selling company. They therefore represented 'mirror images' of each other and again were a useful check of consistency.

Scenarios were constructed as near as possible in respondents own language. Thus through out the research, the term 'intercompany relationship' was used rather than the more strictly correct description of 'intragroup relationship' because this was how they were identified by respondents. Each scenario was usually no more than two sentences in duration reflecting the necessity to provide sufficient comprehension without being overly complex or confusing. Length and content of the scenarios also reflected the need to be open ended and set a particular scene rather than lead the respondent to a particular conclusion or line of thinking. Thus a scenario initially constructed as:

'Your group continuously encourages greater co-operation between internal companies yet at the same time values individual accountability and focused responsibility to achieve individual budgets and targets. You feel at times there can be a contradiction'.

was subsequently modified to omit the second sentence. Each scenario was critically examined in this way and modified as necessary to ensure the correct balance between comprehension, completeness and objectivity. The number of scenarios was not predetermined but was the number found necessary to cover the issues raised. Forty eight scenarios were finally selected. These are listed in Appendix 3.

The scenarios were pre-tested with a number of respondents to clarify comprehension and understanding. In some cases, answers deviated strongly from the themes the scenarios were explicitly designed to explore, therefore requiring further modification.

4.2.5 Scenario interviews

Scenario interviews represented a mirror image of the earlier exploratory interviews. With the latter, discussion was used to generate issues and themes, whilst in the scenario interviews, issues (expressed in the scenarios) were used to generate discussion and dialogue, presented in a more standardised and comparable format. The respondents were generally open and had little difficulty in understanding the descriptive situations presented. Only infrequently was repetition by the interviewer necessary. This was perhaps not surprising as many respondents were middle or senior managers used to formulating, exploring and sharing concepts and ideas. Many were graduates and a number were PhDs.

At the beginning of the interview, each respondent was instructed to assess the scenario from a number of standpoints. Firstly, in terms of its relevance by broadly categorising the scenario as follows:

- Indicative of events happening at the moment.
- Indicative of events that have happened in the past.
- Has the potential to happen, but not something yet experienced.
- Generates a neutral or unsure reaction.
- Unlikely to happen in reality.
- Does not reflect reality at all.

Secondly, respondents were asked to consider the scenario from the standpoint of:

- Issues raised.

- What might be going through a particular person's mind when confronted with the scenario.
- What might be the concerns.
- How the respondent might react.

Respondents were requested to draw on their experiences in current or past roles or in any previous organisations. It was stressed to them that they could keep their answers general and not relate specific details in terms of names of individual companies or personnel. In reality, many did describe specific relationships and people involved. A number requested reassurance on confidentiality which was emphasised by the interviewer at the beginning of each session.

The scenarios were sequenced in such a way that related topics were discussed at different points within the process to check for consistency and variability of answers. The interviews generally lasted between one and a half to two hours. All were recorded on tape. There was no relationship identified between length of scenario and length of response. Some scenarios elicited long and relatively complex answers, other were described or dismissed quickly. In many cases, interviewees became interested in the scenarios themselves. Typical reactions were that they represented situations that they recognised or perceived as thought provoking. Some scenarios were greeted with ironic humour by certain respondents.

The involvement of the interviewer in the interview processes was deliberately anonymous, limited to reading the scenarios and ascertaining when the respondents had completed their answers. This was deemed to be particularly important given the history, status and involvement of the interviewer in the focal organisation as described earlier. Further questioning was avoided.

An underlying assumption of this approach is that if a subject was deemed important by a respondent, it should trigger a 'top of the head' response. By inference, no mention of a particular issue was taken to be indicative of low importance (at least to that particular respondent). This is perhaps the major draw back of this type of methodology in that the scenarios cannot be guaranteed to trigger all the important responses. Respondents can forget details or fail to make the necessary associations. In the end, it was decided that the requirement for objectivity outweighed the limitations inherent in analyses of this type.

4.3 Analysis

4.3.1 Content analysis

Discussion of the scenarios by respondents gave rise to a large amount of recorded data, expressed in the words, language and subjective meanings of those respondents. Symbolic communication in the form of writing or words must largely be transcribed in formal terms, before they can be used for data processing and inference. One such method of achieving this 'transcription' is content analysis. Holsti (1969) defines content analysis as 'any technique for making inferences by objectively and systematically identifying specified characteristics of messages'. Stacey (1969) sees content analysis as particularly useful for the analysis for documentary evidence, essentially regarding it as a technique of reducing qualitative data to quantitative terms.

Holsti (1969) regards content analysis as particularly valuable when the respondent's own language is important to the investigation. It enables the ordering and quantification of respondents views over a wide range of areas and issues whilst at the same time, quantifiable data can be traced back to actual words and precise context of their expressions. It also provides an important means of comparison between respondents.

Content analysis pays particular attention to the issue of reliability of its measures and validity of its findings through the precise count of word use. The methodology of content analysis is to essentially list units to be measured (component themes) and undertake a simple count of the items. Important factors are those which relate to coding namely: clear and unambiguous categorisation and consistency.

Smith (1981) recognises that whilst content analysis is a useful tool for the analysis of 'manifest content' (those items physically present in words or texts), extension of the technique to the interpretation of 'latent content' (symbolism underlying the physical data present) has inherent dangers. However as Krippendorff (1980) recognises, messages do not have single meanings and data can always be looked upon from numerous perspectives especially when they are symbolic in nature. Thus messages may convey a multitude of contents even to a single receiver. This is an important limitation of this form of methodology.

4.3.2 Coding and content frames

The process of the development of scenarios produced a list of issue areas and from these a list of categories of analysis. Integration of these produced a number content frames. Content frames consisted of a full listing of all the categories into which respondent views were analysed. These categories were intended to be sufficiently comprehensive so as to accommodate and differentiate all important aspects of intragroup relationships as covered by the seven propositions. A list and description of content frames is presented in Appendix 4.

The unit of analysis in the study was taken as the 'theme'. Holsti (1969) points out that grammatical units such as sentences or paragraphs do not usually lend themselves to classification into a single category. Because of this, they are rarely used as recording units. Also, raw data in this case was transcribed speech. In some cases, it was not in full grammatical sentences. For this reason, sentences were reduced to component themes before being placed in the proper categories.

A number of rules were developed to identify these themes and prevent confusion in categorisation. For example, differentiation was made between what respondents reported was actually happening and what they believed should be happening. Thus a statement that 'The centre specifies rules around who we should trade with within the group' was categorised under the frame 'Trading mandate - actual', whereas a statement which contented that 'The centre should specify who we trade with inside the group' was categorised as 'Trading mandate - desired'.

Where immediate repetition occurred, it was not coded twice. For example:

- Where a statement was made and was followed by some assertion for emphasis.
- Where a statement was reinforced using an example from personal experience.

The system of categorisation was finalised after extensive checking. This was to ensure consistency. This means that no theme could be placed in more than a single frame.

The next stage was to decide a system of enumeration. The simplest system is that of a straight forward frequency count. (For example, themes relating to 'trading mandate' were mentioned *x* number of times by a particular respondent). In this case however, it was necessary to distinguish between statements coded in each frame. It was required to separate statements according to whether respondents claimed that events 'did'/'did not' or 'should'/'should not' happen. For example 'There are rules' compared to 'There are no rules' (Actual category); or, 'There should be rules' as against 'Rules should not be applied (Desired category).

We need however to develop the argument one step further because the above analysis implies an underlying assumption that each unit should be assigned equal weight. Clearly, it is important to differentiate between such statement as:

- 'There are extensive rules'.
- 'There are some rules'.
- 'There are few rules'.
- 'There are no rules'.

The measurement of intensity of content units is one of the more difficult aspects of content analysis. (Holsti 1969). The technique finally adopted in this study was developed as a simplified form of 'Evaluative Assertion Analysis'. The technique uses coded units on a five point scale from +2 to -2 as detailed in the following table:

+2	Statements of strong assertion
+1	Statements of weak assertion
0	Neutral or 'Don't know' statements
-1	Statements of weak rejection.
-2	Statements of strong rejection

The transcribed interview for each respondent was analysed scenario by scenario. Each reply was broken down into themes and each theme was coded. There was only one coder in is this study and hence problems of inter-coder reliability did not arise. Each interview was coded three times. Although this proved particularly time consuming it provided a useful check for accuracy and consistency. The total score in each category was arrived at by adding algebraically the scores across different scenarios. The number of times each category was mentioned was also recorded. The total score by category was then divided by the number of mentions to provide an average score by category ranging from +2 to -2. An example of the scoring process is presented in Appendix 5.

A strong advantage for this technique is that data for each respondent can be aggregated over scenarios. This facilitates comparison between respondents in the focal organisation and also between respondents in the other organisations. By checking the individual analysis sheets it is possible to see on which scenarios a respondent recorded a particular score. It is then possible to refer to the transcribed interview and determine the precise words used. Thus, the analysis of respondent views can be checked against the scenario which prompted the response, the precise context in which the view was expressed and the actual words used by the respondent.

Respondents were faced with a large number of diverse but realistic situations. These covered a wide range of different aspects of intragroup relationships. It seems valid to assume that if a particular factor was not mentioned in response to any of these situations then that factor was not considered important or relevant to these situations. On the other hand, if a respondent mentions a particular factor many times in response to different situations then that factor can said to figure largely in his consideration or be highly relevant to him.

The system of enumeration which has been used has enabled differentiation between the strength of individual responses. Therefore, it is assumed that a respondent who recorded a high (or positive) average score in a particular category believes that the magnitude of that category to be greater than does a respondent who recorded a lower (or negative) total score.

4.3.3 Comparison and significance

This study has involved the investigation of a wide range of different aspects of the views and activities of practitioners involved in intragroup relationships. One of the aims of the methodology has been to permit the ordering, classification and interpretation of a large amount of data, without losing the richness of that data. The intention has been to let the data - the speech and views of respondents - stand on its own as far as possible.

The analysis theme has been developed to identify and explain similarities and differences between individuals and groups. It is a tool for exploring the data. The content frames are essentially a shorthand for the transcribed data. They point to recurrent themes and tendencies. From these, it is possible to suggest or explain these indications by referring: firstly, to the individual respondents who produced the overall score and secondly, to the transcribed data to ascertain the precise words and context of the responses.

Much of the analysis in this study concerns the mean scores of groups of respondents in particular categories. Also, some indication of the dispersion of scores has been calculated, to ascertain whether these means are the result of statistical coincidence or whether they do indicate trends among different groups of respondents.

The analysis builds on aggregations of responses to individual scenarios. The initial aggregation is of each interviewees' responses to the individual scenarios. The second level of aggregation is to compare and contrast respondents views in the focal organisation (Agrifood, N=30) and other organisations (N=10). In terms of the latter, analysis could be further carried out at the individual company/group level. However as the number of respondents at this level is either one or two for the groups analysed, it was decided that the sample sizes were too small to justify detailed analysis. These are therefore treated as a single sample. Hence the mean is used as an indication of the average or common view taken together.

The selection of the statistical analysis techniques used in this thesis is based on an underlying assumption that the scaling used to record respondent views (Likert-type scale), can be considered and treated as robust interval data. Whilst some statisticians argue that Likert scaling is ordinal in nature, it is not uncommon for marketing analysts to treat them as interval. This allows the calculation of mean scores and standard deviations for each variable and permits further use of parametric-type tests. (An assumption that the data is ordinal only permits the calculation of the median and inter quartile range as measures of central tendency and dispersion. It also limits the use of analytical techniques to less powerful, non parametric statistics).

Statistical analysis has focused on investigating two fundamental aspects of the data:

- Firstly, if respondents collectively, have recorded strong feelings (positive or negative) within a particular frame, or express ambivalent and neutral views.

- Secondly, if there are differences in the views of the two groups of respondents. (Type 1 Agrifood respondents, and Type 2 other respondents).

In terms of the first of these, use of a one sample t-test is justified as all respondents are treated as one group (hence N is greater than 30). The null hypothesis is that the sample mean for each variable (frame) is equal to zero. The further the mean deviates from zero, (towards +2 or -2), the stronger the feelings expressed by respondents to a given statement expressed in the frame. The one sample t-test is the more important of the two tests in that it is used to support the validity of the propositions through the various content frames. The results of this test are presented in Appendix 6.

The test for differences between the two distributions (2 samples - Type 1 & Type 2) has been undertaken using a Mann Witney (non parametric) test. The latter has been used because the sample size for Type 2 (non Agrifood) respondents is too small (less than 30) for the Central Limit Theorem to apply. Given the assumption that normality for the underlying variable cannot be justified, the t-test would thus be invalid. The results of this test are reported in Appendix 7. Comparison between the two groups is of lesser importance. Non significant differences between the two groups of respondents, reinforces the view that the findings are not just Agrifood-specific.

For both the Mann Witney and t-test, significance has been calculated at the 0.05 level.

We should finally emphasise that comparison between samples is not simply made on the basis of scores. Differences in scores point to some differences in attitude between respondents. These are investigated by working back through the individual content frames to find precisely what was said by whom and in what context. This provides a more thorough explanation of the different views which show up in the scores.

4.3.4 Presentation of findings

Details of the findings of the field research are presented in the next six chapters. Each chapter focuses on a specific proposition as outlined in Chapter 3. (The exception is Chapter 9 which deals with two related propositions on the subject of trust between actors). A brief theoretical perspective is presented at the beginning of each chapter to set the scene for the main presentation of the findings. Statistical results are then interpreted in qualitative terms that describe and account for the behaviour of actors within group relationships. Respondent quotes are used to reinforce particular themes and events.

Where individual frames are referenced in the text, they are accompanied by a summary of the level of response and the total number of mentions. (For example, a frame with a response of 27/8, indicates that 27 out of 30 Agrifood respondents, together with 8 out of 10 other respondents, mentioned a theme recorded in this particular frame).

Each Chapter concludes with a statement of whether the findings from the field survey lead us to support or reject the main elements of the propositions outlined earlier.

5. Conclusion

The methodology that has been developed in this chapter has been formulated to support the arguments put forward in the propositions. Development of these propositions indicates that the analysis of a wide variety of factors is necessary to understand the nature of intragroup relationships. The methodological task has been developed to accommodate these factors within the research design which also reconciles the following requirements:

- The need to focus research towards one focal organisation to achieve the depth of analysis inherent in a focused case study.

- The need to take into account potential sensitivities of respondents in intragroup relationships and overcome problems associated with access and misinformation.
- The need to take into account the status of the researcher as a member of the focal organisation.
- The need to investigate responses to specific issues and situations important to the respondents themselves rather than generalised expectations.
- The requirement to orientate the field research to allow respondents to freely express perceptions and beliefs about their involvement in intragroup relationships.

These prerequisites have led to the development of a methodology with two key properties.

- Data is gathered in the form of tape recorded responses to a number of hypothetical scenarios.
- Raw data is analysed in the form of content analysis.

The orientation of this research is essentially qualitative in nature. It is designed to explore the perceptions of managers involved in intragroup relationships, to help understand the nature of these relationships by uncovering key traits and characteristics that make them special and unique. The methodology also helps us explore certain ideas about intragroup relationships, expressed in the individual propositions. The statistical analysis has been used as an aid to interpret the data, rather than directly test any of the propositions.

Chapter 5

Influence of the centre

Introduction

This chapter examines the influence of corporate centres on the trading relationships of business units. It seeks to identify the reasons why corporate management should intervene in the relationships between group actors and highlights the mechanisms it employs to co-ordinate their activities in line with its corporate strategy. By analysing the role of the centre, we will examine evidence in support of the first proposition P1 which states that:

Intragroup relationships are built around a basic triadic structure where interaction between buyers and sellers (the operating actors) is influenced by the presence of a central actor in terms of the nature and extent to which it mandates interaction between them.

The theme of this chapter is to explain how corporate centres co-ordinate the activities of internal actors. In section 5.1 we see that traditional writers have identified hierarchical and market influences as important mechanisms for co-ordinating the activities of actors in industrial systems. We note that further studies have emphasised the importance of networks as distinct forms of co-ordination based on their own internal logic and system of governance. We go on to examine evidence for corporate centres applying these distinct models of co-ordination as a basis for managing relationships between companies within a group.

In section 5.2, we define the conditions under which a corporate centre is likely to adopt a particular form of co-ordination as a basis for its strategy for managing intragroup interaction.

Finally, in 5.3, we comment on the nature of the centre and note that corporate groups may consist of more than one centre co-ordinating activities between internal actors.

5.1 The co-ordination of intragroup relationships

5.1.1 Markets, hierarchies and networks as co-ordination mechanisms

A key task for all multi-divisional corporations is to co-ordinate the activities of their business units. Co-ordination implies bringing into a relationship otherwise disparate activities or events (Thompson et al 1991) and is usually viewed as a sign of efficiency. By co-ordinating a set of activities, something can be achieved that otherwise would not be. The challenge for corporate management is to define how an organisation can create a whole which is so much greater than the sum of its parts.

Coase (1937) defined a sharp delineation between markets and hierarchies as methods of co-ordinating activities in industrial systems. Organisational forms fall between markets and hierarchies as 'ideal types'. These ideal types were seen as a useful starting point for studying the organisation of industry (Ouchi 1980, Williamson 1985).

Markets represent spontaneous co-ordination mechanisms that impart rationality and consistency to the self interested actions of individuals and firms (Powell 1990). Co-ordination takes place via the guiding hand of market exchange and the price system it supports. Prices are presumed to capture all relevant information for exchange. By contrast, in a hierarchy, administrative control is overtly exercised if co-ordination is to be efficiently achieved. The visible hand of management supplants the invisible hand of the market to co-ordinate supply and demand. (Powell 1990). Authority is exercised through rules in the form of edicts and orders which act as informational devices. Hierarchy is captured in the bureaucratic form, operating through a system of surveillance, evaluation and direction.

Traditional economists regarded these forms as mutually exclusive. The hierarchical form is more likely to prevail when frequently recurring transactions involve uncertainty in their outcomes and require substantial transaction specific investments in money time and energy. Under these conditions, organisations are likely to co-ordinate their activities 'in-house'. A market interface is more likely to prevail where exchanges are straight forward, non repetitive and require no specific transaction investment. The pursuit of optimum efficiency is a fundamental assumption in defining the nature of organisations.

Any collectivity which has an economic goal must find a means to control diverse individuals efficiently (Ouchi 1980).

The idea of markets and hierarchies as being mutually exclusive means of allocating resources has been questioned by many later academics (Johanson & Mattsson 1987, Powell 1990). Bradach & Eccles (1989) note that markets may exhibit traits of hierarchies and hierarchies may display properties of markets. No where is this mixing of price and authority mechanisms more visible than in the modern multi-divisional form. Distinct organisational control mechanisms are operated simultaneously for the same function by the same firm.

Co-ordination is not achieved through a central plan or an organisational hierarchy. Nor does it take place through the mechanism of the market. Co-ordination is the outcome of firms operating in networks in which price is just one of several influencing variables. (Johanson & Mattsson 1987). Networks represent distinct forms of co-ordination of economic activity where individuals are engaged in reciprocal, preferential and mutually supportive actions. Networks typically describe an environment where there is no common ownership or legal framework between the parties, and where items exchanged between buyers and sellers often possess qualities that are not easy to measure or specify. Networks represent means of co-ordination that emphasise more informal mechanisms embedded in social, political and economic relationships.

For some writers, networks are distinct from market transactions and hierarchical governance structures representing separate and different modes of exchange with their own 'logic' (Powell 1990). Other analysts consider networks as the most general category of co-ordination which incorporate both market and hierarchical structures. (Thompson et al 1990).

Analysis of relationships between companies within a group, must therefore identify and account for the extent to which co-ordination is achieved through:

- A formal hierarchy expressed in official rules and procedures formulated and actioned from a central authority (the centre).
- Market exchange through an accompanying price system.

- Network mechanisms that incorporate long term mutually beneficial relationships based around trust and co-operation.

The purpose of this section is to identify the extent to which market, hierarchical or network mechanisms are used to co-ordinate activities between operating companies in the corporations investigated in the field research. We will then go on to define the conditions under which the various mechanism predominate.

5.1.2 Trading and transfer mechanisms

Before we examine the evidence for the existence of various forms of co-ordination, we must first make an important distinction between trading and transfer mechanisms. Co-ordination of activities in a multi-divisional company implies some form of involvement or intervention by a corporate centre in the activities of business units. Involvement is manifested in the form of policies that regulate relationships between actors and define ways in which they relate to each other. Analysis of the field research indicates that policies are presented in two forms:

- Intragroup trading policies, and
- Intragroup transfer policies.

Intragroup trading policies relate to the concept of an 'authority mandate' defined by Eccles & White (1988) and prescribe the degree of freedom internal business units are given in selecting and developing relationships with trading partners internal or external to the group. Stated simplistically, intragroup trading policies define the parameters of 'Who you can trade with'.

Intragroup transfer policies relate to Eccles & White's concept of a pricing mandate. They define mechanisms by which transactions are carried out in intragroup relationships, particularly relating to the pricing of goods and services transferred within a group. Transfer policies define the parameters around 'How you trade'.

We now go on to examine the concepts of trading and transfer policies in more detail.

5.1.3 Intragroup trading policies

Intragroup trading policies guide or direct group actors in the selection and development of potential trading partners. Three forms of intragroup trading policy were identified from the field research:

- Mandated trading.
- Voluntary trading.
- Encouraged trading.

5.1.3.1 Mandated trading

Mandated trading policies explicitly define who internal companies will, or will not trade with. Typically, they direct internal companies to source from, or sell to other group companies and prevent internal actors from developing relationships with potential partners external to the group. Mandated trading is operationalised in the form of rules or edicts which essentially enforce co-operation between actors and lock them together. Rules are designed to govern the organisation through the exercise of power and authority over subordinate business unit managers, and reflect the hierarchical form of co-ordination identified earlier. Mandated trading was described by respondents in the following terms.

"......when we first came into the group, we were told we had to buy all our (products) from Millpro...." Respondent 7.

".... we've got a company where the centre isn't encouraging, it's told the business to move to this in house company". Respondent 25

"There is a clear edict that we buy from X (an internal company). That was an edict that was put in writing by the Chairman some five years ago, almost on pain of extinction. You have to deal with X". Respondent 37

Mandated trading rules externally formalise a relationship between group companies. Formalisation in the context of relationships refers to the extent to which the relationship is agreed upon and made explicit (Ford & Rosson 1982). Formalisation according to Hall, Haas & Johnson (1967) is the degree to which rules define roles, authority relations, communications, norms, sanctions and procedures.

One of the features of a mandated trading policy is that group actors may be directed to trade with other group companies in instances where they perceive their best interests are served by selecting alternative trading partners external to the group, thereby involving a degree of sacrifice. A number of respondents commented that edicts may be imposed by the centre for them to co-operate with group companies in circumstances they would not have chosen given 'market' or 'network' freedom.

"They force you to deal with people that you shouldn't be dealing with from a commercial point of view" Respondent 1

"(Group company A) would have happily de-listed Tastetec, but they weren't allowed to because the centre said you mustn't" Respondent 5

"...sometimes you would have to deal with people perhaps you don't feel that it's right to be dealing with in a sense of a situation where you could improve the business if you could deal with some other person" Respondent 12.

By directing that internal companies must co-operate with each other, the centre may specifically exclude interaction between internal companies and certain external actors. This may occur where internal business units are in competition with external companies in up stream or down stream markets and there is danger of information leakage through an internal trading partner. This situation is examined in more detail in Chapter 7.

5.1.3.2 Voluntary trading

A voluntary trading policy represents the opposite end of the scale to mandated trading in that the centre makes a deliberate and conscious decision not to influence trading relationships between operating actors and distances itself from customer or supplier selection decisions. These are left up to the operating companies to formulate for themselves. Under this form of co-ordination, no rules, edicts or procedures are specified by the centre as network influences prevail over hierarchical mechanisms in the formation of trading relationships. Group companies have the freedom to select trading partners by the same processes, and using similar selection criteria, they employ when interacting with external customers or suppliers outside of the group. They co-operate with each other, only if each perceives it to be in its individual interests.

A voluntary policy expresses the network form of co-ordination identified earlier where individual actors engage in reciprocal and mutually supportive actions to further individual goals and objectives. It was described by respondents in the following terms:

".....trade is generated by people within the operating companies and therefore the operating companies link with each other no matter what is said at the centre". Respondent 4

"I don't believe that interaction between sister companies in Brit Chemicals is influenced by rules defined by people at the Centre. We work pretty much as autonomous business units and the relationships are defined by the autonomous business units themselves" Respondent 32

"We are free to buy wherever we like.......There is no policy what so ever that favours any internal companies" Respondent 38.

5.1.3.3 Encouraged trading

An encouraged trading policy represents a hybrid of the mandated and voluntary forms, combining network and hierarchical mechanisms to co-ordinate internal relationships. Under this regime, the centre signals to internal operating actors that certain behaviour is appropriate (for example, giving a favoured status to an internal supplier), but refrains from fully mandating that such behaviour will occur, leaving this to be decided by the individual business units. Rules take the form of signals rather than direct edicts or commands and are expressed as 'suggestions' and 'desires'. Informal persuasion prevails over formal directives where interaction between business units is seen as desirable rather than obligatory. Co-ordination is achieved by the centre through facilitating or brokering co-operation between operating companies as a 'neutral' third party. The occurrence of an encouraged trading policy was extensively reported by Agrifood and non Agrifood respondents in field interviews.

"...it's highly unlikely that there will be a clear edict from the centre that the companies have to actually trade together. There will be a strong hint from the centre that companies should trade together." Respondent 8.

"...the centre does give some guidance about inter-group relationships....and tends to set a pattern, and from that point of view I'm sure the centre does have an influence around all the subsidiary companies in terms of really setting the scenario and setting the pattern and setting an example or at least indicating what they would like to see followed". Respondent 19.

"....I don't think anybody's ever said 'Millpro you will buy all your (raw material) from Agrivite' but there are clearly strong suggestions that that would be an appropriate course of action". Respondent 28.

One form of the encouraged trading policy is for the centre to direct that internal companies should have a preferential status as potential suppliers or customers, in that 'all things being equal' internal partners will be favoured over external. Such a status was described by respondents in the following way:

"I think we do have rules which say all else being equal you should give a sister company preference in terms of supplying or trading compared with an outsider, on the grounds that it makes the best use of Group assets". Respondent 19.

"Agrifood's policy is to favour internal companies. I don't interpret that as one hundred percent supply, but I still think if that's the case you need to have good justification, good justifiable reasons as to why you want to go somewhere else.....". Respondent 29.

"...there is a......preferred supplier status that exists. We'd always give them the benefit of the doubt and try to support our sister company". Respondent 37.

Eccles & White (1988) identified that when a policy of exchange autonomy is in force, even though internal transactions are not mandated they may be encouraged in a variety of ways. Top management may use its authority to require a buying centre to source internally if the selling centre's price is within a certain percentage of its best outside alternative. They may require that a selling profit centre assigns a salesman to call on internal customers, or that a buying profit centre source a certain percentage of its total requirements internally.

5.1.4 Evidence of trading policies in respondent organisations

As part of the field research, content frames were constructed to determine the incidence of the various forms of trading policies operating within respondent organisations. Scenario 44 suggested to respondents that ***'Interaction between sister companies in your group is influenced by rules defined by people at the Centre, telling you who you should be trading with'.*** Frame 1 identified responses that indicated the use of mandated trading mechanisms to co-ordinate activities between internal business units. (Frame 1. Trading rules - actual. Mentions 170. Response 30/10 - i.e. all interviewees recorded some form of response measured by this frame). In Agrifood, there was diverse opinion over whether trading mandates were adopted by the corporate centre (reflected in a mean score amongst respondents of -0.2 with a standard deviation of 1.4). Whilst co-ordination through mandated trading mechanism applied to certain relationships, it was not a universal feature of all internal interaction. Thus whilst certain internal relationships were mandated through the imposition of rules, in other instances, respondents perceived that no rules applied suggesting that voluntary mechanisms predominated. Non Agrifood respondents generally confirmed that trading relationships were not co-ordinated through mandates, but again there was a diversity of opinion recorded amongst respondents. Overall, the one sample t-test showed no significant difference from zero across all respondents. The Mann-Whitney Test indicated no significant difference between both groups.

Frame 4 ascertained whether respondents perceived that they were encouraged by their corporate centres to co-operate with other internal companies. (Frame 4. Trading encouragement. Mentions 87. Response 29/8 - i.e. 29 out of 30 Agrifood respondents recorded responses, and 8 out of 10 non Agrifood respondents). Mean scores for both Agrifood and other respondents at 1.9 and 1.6 respectively, strongly indicate that encouraged trading represents the dominant form of co-ordination mechanism across respondent organisations. This is confirmed by the one sample t-test, which indicated a significant difference from zero. No significant difference of opinion was identified by the Mann-Whitney test between groups.

5.1.5 Intragroup transfer policies

Group trading policies may be accompanied by the use of transfer policies. Intragroup transfer policies define the mechanisms by which exchange takes place between group actors by regulating the value of goods and services exchanged between internal companies in the form of transfer prices.

In comparison to trading policies adopted by the centre, only two types of transfer policy were evident from the field research, those incorporating voluntary mechanisms and those that are mandated. The centre either formulates a rigid transfer policy that is imposed on the operating actors or refrains from defining any rules at all. Existence of an encouraged, hybrid, form was not evident from the field research.

5.1.5.1 Mandated transfer policies

Mandated transfer policies reflect hierarchical mechanisms similar to mandated trading policies in that rules and procedures such as transfer pricing formulae are used to calculate the value of goods and services transferred within the group. These formulae, defined by the centre, apply consistently to both parties in an intragroup relationship and are nonnegotiable. Mandated transactions are usually made at cost or at the prevailing market price (Bradach & Eccles 1989).

"We have rules very tightly defined about things like 'this is the price you will pay for (raw material X) and this is the price that you will trade (material Y)". Respondent 9.

"There is a calculation which has been developed over a period of time by someone at the centre, in our case that is Brussels by a senior financial guy......This has been developed over a period of time. Everybody works to the same formula". Respondent 39.

5.1.5.2 Voluntary transfer policies

Voluntary transfer policies exhibit similar characteristics to voluntary trading policies in that the centre deliberately refrains from involvement in decisions of how actors value the price of goods and services exchanged between them. Actors are left to reach negotiated settlements reflecting market prices and other network influences.

"We've always tried to be at arms length trading". Respondent 14.

"Not any specific rules set. In terms of the way we work with Millpro, we work on a formula basis. Nobody from Agrifood gets involved". Respondent 29.

"There's no rules on transfer pricing. That's one of my concerns that in other companies I've worked for it's been quite clear what those are". Respondent 30.

5.1.6 Evidence of transfer policies in respondent organisations

The use of transfer mechanisms was widely evident in Agrifood and other respondent organisations. Scenario 5 told respondents that ***'You hear that people at the Centre have recently set rules and guidelines on intercompany trading to ensure matters are conducted in an orderly way and ensure individual companies are not disadvantaged'***. Frame 5 was set up to ascertain the extent to which transfer rules were employed across various business units. (Frame 5. Transfer rules - actual. Mentions 65. Response 21/10). Similar scores were recorded for Agrifood and other respondents (means 0.9 and 1.1 respectively) with no significant difference identified between groups by the Mann-Whitney test. Overall, the one sample t-test was significantly different from zero, indicating that the use of transfer rules was common across respondent organisations. In Agrifood, there was evidence of voluntary and mandated transfer mechanisms in operation, whilst in other organisations mandated mechanisms seemed to predominate in exchange transfers.

No responses were recorded for Frame 8 (Transfer encouragement) indicating that corporate centres either mandate transfer rules between business units or leave these units to develop their own mechanisms.

5.1.7 Models of intragroup co-ordination

The previous sections have identified that corporate centres co-ordinate relationships between group actors by adopting various forms of trading and transfer policies, emphasising different aspects of governance. The means by which a corporate centre manages relationships between its business units can therefore be described in terms of combinations of these trading and transfer mechanisms as illustrated in the matrix in Fig 5.1. The model identifies six potential combinations which describe how a corporate centre may chose to manage interaction between group actors and may be used to identify and position various intragroup trading strategies.

Fig 5.1

Transfer policy

Trading policy		Mandated	Voluntary
	Mandated	1	2
	Encouraged	3	4
	Voluntary	5	6

In the case of cell 1 (mandated trading, mandated transfer), the centre defines precise rules regarding interaction between group companies in terms of their customer/supplier selection decisions and the value of goods and services exchanged between them. This represents a close form of full vertical integration and gives actors little flexibility to pursue alternative options with customers or suppliers outside of the group. Mandated trading/mandated transfer expresses the extreme form of the bureaucratic mode of governance where the authority of the centre dominates all other considerations.

In cell 2 (mandated trading, voluntary transfer), the centre defines that group companies will trade together but refrains from defining any rules by which this is done. A number of internal relationships in Agrifood were described in this way. We will see in Chapter 9 that relationships based on this combination tend to be vulnerable to opportunistic behaviour of both parties, but particularly the seller who is able to exploit a lock advantage of the mandate.

In cell 3 (encouraged trading, mandated transfer), the centre encourages internal companies to favour sister business units as customers and suppliers, but specifies that certain transfer rules will apply if group companies decide to trade together. Respondents 38 and 39 from Branded Foods described this as the co-ordination mechanism operating in their organisation.

In cell 4 (encouraged trading, voluntary transfer), the centre encourages group companies to selectively favour internal customers and suppliers but allows actors to define how transactions are enacted in terms of pricing etc... This essentially represents the intragroup co-ordination strategy of Agrifood PLC.

Co-ordination strategies described in cells 3 and 4 represent partial or quasi forms of vertical integration. Vertical integration notes Harrigan (1985) involves decisions whether corporations through their business units should provide certain goods and services in house or purchase from outsiders. She applies the term 'taper integration' to an organisational form where firms are backward or forward integrated but rely on outsiders for a portion of their supplies or distribution. We can see that vertical integration is a relative rather than absolute concept that can be defined in terms of varying degrees of control exerted by a corporate centre over the activities of its business units.

Co-ordination mechanisms described in cell 5 (voluntary trading, mandated transfer) are similar to those in cell 3 except that in this case the centre gives its operating companies absolute and unrestricted freedom to chose customers and suppliers, exerting no pressure to favour internal partners. However, internal exchange between actors, where it occurs, takes place in the context of defined transfer rules. This form of co-ordination is likely to favour internal buyers who have the option to source from group suppliers when transfer rules give advantageous terms compared with outside suppliers, but can freely switch to other sources (given suitable alternatives are available), to the detriment of sister companies.

Finally, in cell 6 (voluntary trading, voluntary transfer), the centre refrains from exerting any influence on its business units in terms of trading or transfer mechanisms and is sometimes referred to as 'arms length trading' in the context of intragroup relationships. Under this co-ordination strategy hierarchical influences are superseded in favour of network mechanisms. Intragroup relationships are therefore indistinguishable from external relationships group companies may have with outside suppliers and customers. Until recently, this formed the basis of Agrifood's intragroup co-ordination strategy.

We can observe from the field research that different forms of co-ordination strategy may operate within a single corporation. Feedback from respondents indicates that one dominant form tends to represent the basis of the group's co-ordination strategy of its business units, as defined by the corporate centre. However certain relationships may be co-ordinated through alternative trading and transfer mechanisms depending on individual circumstances. We can also see from respondent feedback that co-ordination strategies can change over time (albeit infrequently) depending on the philosophy and beliefs of the corporate centre around the benefits of intragroup interaction. It is therefore important to identify and examine the factors that influence a group's selection and adoption of a particular form of co-ordination strategy. Under what circumstances, for example, would a corporation adopt a voluntary trading policy in favour of one based on the mandated form? What factors therefore determine the selection of various forms of trading policy by corporate groups?

5.2 Factors influencing the adoption of various forms of co-ordination

5.2.1 Determinants of trading policy selection by corporate groups

The decision to favour a particular form of trading policy is influenced by two principal factors.

- The perceived need to derive synergy from related activities across the group.
- The perceived need to assign individual accountability and responsibility to clearly defined areas of the organisation.

5.2.2 Synergy needs

Synergy is the potential benefit that can be realised by exploiting interrelationships between business units, and is often employed as justification for acquisition (Vizjak 1994). The desire to exploit synergies between business units is a significant consideration in the selection and adoption of various forms of trading policy by a corporate centre. The result of network behaviour is synergistic surplus and the objective of each actor in a network is to maximise the share of that surplus through resource exchange (Kaman 1993). Synergy in the context of intragroup relationships is created when operating companies in near or adjacent network positions co-operate to maximise the value of resource exchange for the group as a whole rather than allowing part of it to be lost to alternative trading partners external to the group. Corporations rationalise this in terms of maximising profitability from in house operations. A corporate centre may therefore dictate that certain products or services are transferred exclusively between in house companies where they bestow unique advantages in downstream markets. Synergies also occur when transaction costs are avoided by combining activities of buyers and sellers within a group. The desire for corporate centres to exploit synergies between business units was recognised by many respondents.

"I think people are being made aware, particularly the managing directors of the individual business units that Agrifood .... cannot afford to lose opportunity outside the Group if there is any opportunity that can be taken within the Group". Respondent 22

"There's an initiative at the moment looking at improving our purchasing process and that may well be starting to identify the synergies between sister companies, trying to identify more clearly what benefits there are between closer links. Respondent 32.

Corporate centres may therefore take an active role in working with actors to identify, evaluate and exploit synergy benefits that derive from interaction between various parts of the group. A centre's detachment from the distractions of routine management activities and its pivotal and unique position at the hub of the organisation provides an opportunity to take a wider, long term and more objective evaluation of the potential value of various interactions and relationships.

"People at the centre have an overview without getting bogged down in the detail and therefore supposedly can see the big picture and will then try and look at what is the overall benefit of Agrifood. Whereas you might be saying as Tastetec I'm losing £300,000........if that means we're gaining three million for the group, then that clearly is a better thing to see". Respondent 18.

"It often is the case however that when you're sitting at the centre away from the particular operating businesses you can visualise what's better for the overall concern and I guess that's why we sometimes put these people at the centre to actually work on these overall strategies and make sure the building blocks go in place". Respondent 34.

5.2.3 Autonomy needs

The requirement for autonomy and accountability of business units also represents a key consideration in the adoption of various co-ordination strategies. In a multi-profit centre organisational structure, at least some respect must be paid to the autonomy of profit centre managers. (Eccles & White 1988). Multi-divisional companies typically organise tasks into units usually on the basis of product or geographic markets to which their output is sold. This form of decentralisation is often employed to overcome the problems of increasing corporate complexity. Each business unit controls the operations of a fairly self contained part of the organisation's activities. They are perceived to have superior knowledge of customers, markets, competitors etc.. and best placed to derive strategies that maximise return on the resources invested in them by the centre. Autonomy therefore represents the capacity for business units to manage their own affairs and make their own judgements. Autonomy is accompanied by accountability. Many corporate managers prefer consistent organisation with clear performance measurements (Vizjak 1994). This allows an unambiguous allocation of profit responsibility to business unit managers who are motivated to achieve performance comparable to that of independent entrepreneurs. The fear of dampening entrepreneurial spirit may represent a deterrent to the centre involving itself in the activities of its businesses. Corporate management may be reluctant to intervene as this may be perceived as compromising the accountability of individual businesses to agreed committed objectives, particularly in terms of short term financial performance.

"We are part of a Group and yet each company within that Group, or each operating division within that Group, has its own focus, targets, budgets and should be met at any costs" Respondent 1.

"A lot of our success is that we have individual regions that are very fired up to make an annual budget and to grow their own businesses". Respondent 14.

"...the short term stock market focus..... of the organisation tends to drive people toward their individual accountabilities and achieving their targets. That's how people are monitored and managed" Respondent 32.

5.2.4 Conditions favouring the adoption of voluntary mechanisms

When the philosophy of the group is to value autonomy above the creation of synergy then corporate management will tend to favour the adoption of voluntary co-ordination mechanisms and refrain from intervening in the relationships between group buyers and sellers. In this case, the centre trades off synergy to give its business units greater freedom and independence and business managers exclusive authority and responsibility for creating value. The realisation of synergies between independent units is usually limited to shared finance, legal, accounting and human resource management (Vizjak 1994). Corporate groups based on voluntary co-ordination mechanisms tend to be described as 'decentralised'. The rationale for adopting decentralised forms of co-ordination was described in the following terms.

"...at any one time, all the traders would be seeking to gain the maximum price and the buyers would be seeking to get the minimum price and therefore if they can both achieve their ambitions they are unlikely to trade with each other. Well I've said that a few times too, to justify the position we were in, but the silo management concept division by division being entirely independent and separate was heavily cultivated". Respondent 20.

Policies of voluntary interaction are likely to be associated with 'financially controlled companies' (FCCs) as identified by Goold & Campbell (1987). The FCC's headquarters give their subsidiary businesses clear financial targets, usually of a short term horizon. Business managers are left to determine their own strategy to achieve an agreed financial target. Goold & Campbell recognise that the head office in financially controlled companies is traditionally less committed to the continuation of any business suggesting it attaches less value to potential synergy between actors in FCC groups.

5.2.5 Conditions favouring the adoption of mandated mechanisms

Mandated co-ordination mechanisms are likely to be favoured by corporate management when the desire to achieve synergy between business units out weighs the needs for their autonomy and independence. Mandated relationships are likely to arise where the centre perceives that business units have a tendency to pursue sub-optimal strategies if left to their own devices that compromise the attainment of synergy that enhances the prosperity of the group. The benefits of co-ordination in these circumstances are seen to outweigh its costs. A mandated policy is more likely to be associated with 'strategic planning companies' (SPCs) using Goold & Campbell's (1987) classification, where the group head office is significantly involved in setting strategies for the group's businesses and ensures that individual subsidiary companies are moving in a consistent direction in accordance with the its overall aims and objectives.

Corporate management may also favour mandating interaction between business units to avoid undesirable behaviour of actors that compromises the creation of synergy or leads to inefficiencies. Examples of such behaviour include excessive rivalry or intense long term conflict between group companies.

"There's been an edict from the Chairman but that meant years of hassle, he just got fed up with listening to it. That's why he did it. A fit of pique". Respondent 37.

"(Group HQ) does not lay down hard and fast rules, but we do have a good trading relationship...and we both understand the game as it were, that we both have to trade successfully with each other and I dare say the rules would come if we started to be silly". Respondent 14.

One of the reasons quoted by respondents for corporate centres adopting mandated transfer pricing mechanisms outside of legal and fiscal requirements was the need to avoid conflict and argument between business units by defining order and avoiding ambiguity.

"I think that if you can actually set and agree rules to ensure that individual companies are not disadvantaged, I think it helps the process. I think if you don't have a process, then you bicker constantly". Respondent 16.

"What we're finding is by introducing inter-company pricing mechanisms that are identical across the group, then it's taking away a lot of the points of conflict actually". Respondent 34.

5.2.6 Conditions favouring the adoption of encouraged mechanisms

An encouraged policy is likely to prevail when corporate management recognises potential synergy benefits between business units but at the same time values the attributes of autonomy and accountability. It therefore seeks to adopt policies to pursue both simultaneously whilst recognising the outcome is likely to be sub-optimal in terms of attaining each individually. In doing this, the centre encourages individual companies to co-operate but refrains from authorising that interaction between business units will happen leaving local business managers responsible for their own policies and decisions. Biotec PLC, in a recent annual report, described the themes of encouraged co-ordination mechanisms in the following terms:

"In running our individual businesses we're committed to the principle of decentralisation ..... We're now organised in 13 business units replacing our previous group structure to give each business more autonomy in its operations, aspirations and culture. We expect each business to have a clear strategy, ambitious financial expectations and outstanding people. But in addition to autonomy we expect a lot of interaction among our businesses: to save cost by avoiding duplication, to take advantage of scale (as in purchasing), to draw on each other's skills, to serve common customers better, to operate more effectively in unfamiliar geography and to create new business opportunities".

Encouraged interaction is likely to be associated with Goold & Campbell's (1987) description of a 'strategically controlled company' (SCC), in which SCC head offices assist individual business units in devising their competitive strategies but expect them to take the main responsibilities for themselves in terms of formulation and implementation.

5.2.7 Co-ordination mechanisms as ideal types

Before we conclude this section on the adoption of various co-ordination mechanisms by corporate centres, we must make the observation that mandated and voluntary forms represent ideal types rather than absolute examples. It is unlikely that a corporate centre would, in practice, sacrifice all opportunities to exploit synergies by exclusively pursuing the outright autonomy of its business units, and therefore take no interest in the interaction between group companies. Absence of any synergy potential between its constituent parts could fundamentally question the rationale for the existence of the group in the first place. On the other hand, total pursuit of synergy at the expense of autonomy would compromise the status of group actors as separate and individual entities with independent management resource and performance targets. In reality, we can say that relationships between group actors tend towards being mandated, voluntary or some form of hybrid, rather than absolute representations of one form.

5.3 Nature of the centre

5.3.1 Multicentre groups

Our analysis up to now has identified that a primary role of a corporate centre is to co-ordinate the activities of its business units to achieve corporate goals and objectives that advance the organisation as a whole. In doing this, we have implied that the entity of the centre is contained in corporate headquarters or corporate head office as the sole policy defining unit of the organisation. Evidence from respondent interviews indicates that large multi-divisional groups may have more than one centre that defines intragroup trading and transfer mechanisms between individual business units. The concept of a multi-centre group was described by respondents in the following terms:

"What's the definition of 'centre'? There are a number of centres in the group. It could be (group head office). *It could be a divisional chief executive".* Respondent 30

"I think there are two definitions of the centre actually where we are. One is centre as in management group, so we are part of a European management group and therefore within the management group certain rules are defined. However within the overall concern, so for instance Euro Industries PLC in that sense, there are also certain rules that have been defined there..." Respondent 34

If the centre is defined by its authority to formulate rules and policies around intragroup trading, a number of centres can exist in the context of a single corporate entity. Whilst a centre may be identified in terms of the corporate head office, trading and transfer policies may be formulated at different levels throughout the organisation. A centre may operate at a divisional level, where a number of operating companies or business units report to a divisional management team or chief executive. Interaction between operating companies within the same division may be influenced by co-ordination mechanisms defined at the divisional level. At a lower level, where an individual operating company is organised into independent business units, an operating company business manager or management team may also constitute what can be defined as a centre. This was particularly noticeable in one of Agrifood's subsidiary companies where the unit was structured around independent regional businesses and where trading between them was significant in terms of the supply of raw materials and the transfer of finished products.

Whilst respondents generally recognised that the authority of the centre could be invested in some form of management group, for example the group main board, or a divisional management team, many mentioned the influence of certain individuals in defining intragroup trading polices. In Agrifood, many recognised that the current policy on intragroup trading originated from, and was driven by, the group CEO, who was frequently mentioned in name by respondents. A similar theme was expressed by respondent 37 from Western Provisions PLC, who noted that:

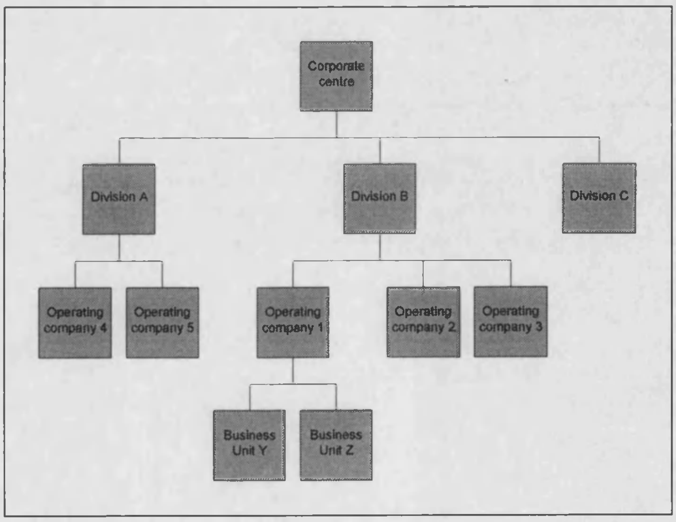
".... once the Chairman's issued an edict, everybody that doesn't fall in line is in trouble." Respondent 37

Whilst respondent 2, in describing the influence of a new divisional chief executive noted that:

"......in a short time that X (a new divisional CEO) *arrived, he's made very positive inter company co-operation essential".* Respondent 2

Evidence from respondents in this study would indicate that the notion of a single management team universally defining intragroup trading and transfer policies across the entity of the group is too simplistic. In reality, policies may be defined at various levels within the organisation.

Fig 5.2



In the example shown in Fig 5.2, corporate management may define interaction between divisions A, B and C. Divisional management B may define trading and transfer mechanisms between operating companies 1,2 and 3, whilst Operating Company 1 senior management may define interaction policies between business units Y and Z. It is therefore possible to find the use of voluntary, encouraged and mandated co-ordination mechanisms simultaneously operating within the same corporate group at the same time.

5.3.2 Groups as networks

The presence of more than one centre in a group has important implications for the pattern of relationships between actors. Whilst the concept of an intragroup triad between internal buyer, seller and centre presents a useful micro-analytical tool to examine relationships within a group, in reality, intragroup relationships must be considered in a wider network context even inside the boundaries of the organisation. In networks, actors typically participate in a social system involving many other actors who are significant reference points in one another's decisions (Knoke & Kullinski 1982). The nature of the relationships a given actor has with other actors within a group may affect that focal actor's perception, beliefs and actions. Network analysis must take into account both the relationships that occur and those that do not directly exist among internal companies. Actors in a group may be more extensively connected to some group members than others. Whilst internal buyers and sellers may have strong connections with a divisional centre, they are also indirectly influenced by co-ordination mechanisms operating in other parts of the group.

In our example in Fig 5.2, Operating Company 1 may have a direct trading relationship with an operating actor in Division A (say Operating Company 4). Interaction between actors 1 and 4 will be conditioned by the attitude of divisional management A and B's beliefs of how internal activities should be co-ordinated. This will be further conditioned by the attitudes and beliefs of the corporate centre or head office. The existence of a number of centres can add significant complexity to the management of relationships within a group. In the above example, interaction between operating companies 1 and 4 will be influenced to some extent by the relationship between centres A and B. This is an important theme which we will return to in Chapter 7 when we examine the influence of external actors on relationships between group companies.

5.4 Conclusions

This chapter has been concerned with the way corporations co-ordinate the activities of their business units. We have examined intragroup relationships in Agrifood and other corporate groups and in so doing have presented evidence to support our first proposition P1, which states that 'Intragroup relationships are built around a basic triadic structure where interaction between buyers and sellers is influenced by the presence of a central actor in terms of the nature and extent to which it mandates interaction between them'.

We have examined the nature and extent to which corporate centres mandate interaction between operating companies in Frames 1 and 4 (measuring the use of trading rules in respondent organisations) and Frames 5 and 8 (similarly measuring the application of transfer rules).

We can conclude that the influence of the centre on relationships between group actors depends on the mechanisms it adopts to regulate:

- Who internal actors select as trading partners (The trading policy).
- The value of goods and services transferred between them (The transfer policy).

We have seen that corporate groups may chose to co-ordinate activities through the application of rules and procedures - expressed in the form of trading and transfer mandates - that represent a direct form of hierarchical control.

At the opposite extreme, a corporate centre may favour the autonomy and clear accountability of its business units and refrain from exerting any direct influence on the trading or transfer decisions of its operating actors. In doing so however, it indirectly signals to business units its wishes and intentions around intragroup trading which shapes the expectations of group companies in the way they relate to each other.

We have identified a hybrid form of co-ordination, incorporating both hierarchical and network governance mechanisms, which occurs when a corporate centre encourages, rather than directs, that operating actors should behave in a certain way towards each other.

Evidence from the field research therefore supports the notion that interaction between group actors is conditioned to a greater or lesser extent by the influence of a corporate centre.

Finally, we must make one important caveat when applying the first proposition in that whilst intragroup relationships can be viewed at a basic level in terms of a triadic structure, in reality they form part of a much wider network of relationships. Internal actors are directly and indirectly influenced by the activities of other actors inside and outside of the group including central actors operating at different levels across the organisation.

Chapter 6

The effectiveness of rules governing intragroup relationships

Introduction

In the previous chapter, we identified that a corporate centre may become involved in relationships between operating actors within a group by mandating or encouraging interaction between them. We defined the conditions under which a centre is likely to take a more interventionist approach in co-ordinating relationships between internal business units. We also recognised that intragroup transfer policies may be formulated to accompany internal trading rules by regulating the value of goods and services exchanged between actors.

We now turn to examine mandated relationships from the standpoint of the operating actors and assess the effectiveness of rules governing interaction between group companies. Our analysis will be developed to examine evidence to support the main elements of Proposition P2 which is presented in two parts.

2A - The effectiveness of mandated rules governing intragroup interaction is a function of:

- **Operating actors' recognition of the authority of the centre to impose mandates on group companies.**
- **Each actor's perception of the meaning of the mandate.**
- **The strength of associated policing and control mechanisms.**

2B - Whilst the centre may mandate interaction between operating actors for the benefit of the group, operating actors themselves may favour external relationships over internal relationships in pursuit of their network goals and objectives. Under these circumstances:

- **Operating actors may seek to influence the centre to modify the terms of the mandate in ways advantageous to themselves.**

- **Operating actors may seek to challenge or circumvent a mandate that limits their interaction with counterparts external to the group.**

We begin in section 6.1, by examining the conditions for the development of effective rule structures governing intragroup interaction. (Part 2A of the proposition). We highlight the importance for operating actors to accept that the centre has the legitimate right to impose rules over their internal relationships. We recognise the significance of internal actors committing to certain fundamental principles that underlie these rules. We see that clarity of rule structures and the power of policing and control mechanisms are also important variables in devising effective internal trading and transfer policies.

In section 6.2, we investigate how actors respond to the imposition of mandates. (Part 2B). We recognise that in some circumstances actors may welcome rules governing their interaction with other group companies. We also acknowledge that actors may perceive that rules and mandates are undesirable from their perspective and may therefore seek to limit and minimise their impact.

Finally, in section 6.3, we make some general observations about the effectiveness of rules governing intragroup relationships.

6.1 Conditions for effective rule making governing intragroup relationships

The acceptance of quasi-legal rules is the basis of much organisational behaviour (Weber 1947). Most social activities are governed by rules which are either explicitly defined, or unstated and implicit. Indeed the observance of rules has become a generalised value in modern society (Katz 1964). Compliance with rules can bring about reliable role performance. It is because rules are shared that the activities of many individuals can be fitted together and brought into an organised pattern. In this way, rules regulate relationships between actors (Worsley 1970). It is through the existence of shared rules that stable and predictable patterns of social interaction arise and are maintained. Shared rules make for the predictability of actions and the fitting together of activities. In this way, rules are formulated to ensure that the activities of actors complement each other.

A rule of conduct may be defined as a guide for action recommended because it is suitable or just (Goffman 1956). In this sense rules represent exogenous and explicit commands or edicts. Rules impinge on individuals directly as obligations (in that an individual is morally constrained to do something), or indirectly as expectations (in terms of the perceptions of others of how an individual actor should react). Obligations involve constraint to act in a particular way binding actors either legally or morally. In some circumstances, the obligation may be something that is felt ought to be done and may stimulate a person to act in a particular way because it is perceived as 'the right thing to do'. On the other hand, an actor may view the rule as burdensome or tedious and regard it as either something that has to fulfilled grudgingly (grin an bear it), or something to be avoided completely.

The use of rules must take into account three conditions for maximum effectiveness (Katz 1964).

- The appropriateness of the symbols of authority and relevance of the rules to the social system involved. (Legitimacy).
- Clarity of rule structures.
- Reinforcing character of sanctions.

6.1.1 Legitimacy and authority

The acceptance of directives and rules on the basis of legitimacy requires the use of symbols and procedures recognised as having the proper and appropriate sources of authority. In the case of group policies formulated by a corporate centre that direct that operating actors should or must trade together, in order for those rules to operate effectively, operating actors must recognise and accept the authority of the centre and its legitimate right to formulate and impose such rules within the group environment.

Recognition of the authority of the centre in terms of its right to impose policy mandates over operating actors was investigated in Scenario 9. Respondents were required to comment on a scenario that ***"Someone in the centre (of their organisation) argues that they have the right to impose any policy they wish on intercompany trading even if that might be to the detriment of an individual business unit"***. Frame 14 was set up to measure respondent views whether it was legitimate for the centre to impose trading policies on operating companies. (Frame 14. Centre legitimacy. Mentions 50. Response 22/8). The Mann-Whitney test indicated no significant difference between type 1 (Agrifood) and type 2 (other) respondents. Mean scores of 0.7 and 0.3 are significantly different from zero and suggest that the authority of the centre is not regarded by respondents as absolute, as is illustrated in the responses below.

The ultimate authority of the centre in terms of its position at the top of the organisational hierarchy was generally recognised and accepted by respondents across the board. Authority in this context can be considered as the power or right to enforce obedience.

"I think the important thing is that at the end of the day, the centre are the boss. They set the rules. If X (the Group CEO) *finds he doesn't want to decentralise the company, we'll have a centralised company. That's fine. As a manager you just have to operate within the environment that your senior up the line wants you to work within".* (Respondent 17).

Whilst the authority of the centre was clear however, the issue of legitimacy of policy implementation in the way that authority is exercised, is more complex. In circumstances in which a mandated trading policy is imposed on actors who are both in agreement with the policy directive, the issue of legitimacy does not arise. Complications occur where the centre imposes mandated policies that are perceived to favour one actor at the expense of another. In these circumstances, whilst the authority invested in the centre remains beyond challenge, this authority is bounded by certain obligations incumbent on the centre, that make the exercise of that authority legitimate. Thus the arbitrary imposition of intragroup trading policies was not considered legitimate by respondents. Actors believed they had the right to challenge corporate decisions, whilst the centre was obligated to defend and justify its positions around intragroup trading. Such factors were considered vital to the successful implementation of intragroup trading policies. Even in circumstances where a policy change was recognised as benefiting the group as a whole, the centre was deemed to have a duty to follow certain norms of behaviour in seeking counsel and consultation with the actors affected by the policy. Many respondents also highlighted an obligation on the centre to ensure that operating actors are compensated where they have been disadvantaged by policy changes in terms of adjusting measurement and reward processes. Policy changes that failed to accommodate this, were not considered legitimate.

"Well ultimately of course they do have the right, but it would be a very stupid thing to do. .... It's really, if rules are imposed without full explanation they will be disregarded, got round or the circumstance will be circumnavigated in some other way, such as ceasing to trade with the group company. I don't think that should happen. I don't think the centre can impose policy without consent". (Respondent 4).

"I don't believe that within our business, somebody at the centre does have the power to impose without being heavily questioned and being challenged". (Respondent 6).

"I think that it's very wrong that somebody at the centre tried to impose a policy without fully understanding every individual business unit, the way it works with other companies and what benefits and disadvantages each individual business unit would have. ..... They could force the business units to trade with each other but the only thing that will come out of that will just be negative. (Respondent 29).

We can conclude that whilst the authority of the centre is acknowledged by operating actors, its freedom to impose trading and transfer policies is bounded by certain behavioural norms and expectations that limit its ability to arbitrarily impose mandates without at least seeking some compliance with actors. We shall see later that where actors dispute the legitimacy of trading and transfer mandates, they are more likely to engage in activities that seek to subvert these mandates and undermine their effectiveness.

6.1.2 Legitimacy and rule acceptance

A related concept to legitimacy is that of rule acceptance and approval. A rule which sets a particular standard or pattern of behaviour must be geared to what the majority of actors believe is acceptable and are prepared to do. The essence of rule compliance rests upon the belief by actors that there are specific imperatives which should be obeyed by all. Underlying these imperatives are a set of normative values that the majority of actors generally commit to. If there is doubt about what the imperative is, or there are varying interpretations of its meaning, the legitimacy basis of compliance is undermined. Thus in the group context, if operating actors don't recognise the fundamental need or imperative to trade together, independent of the wishes of the centre, they may be reticent to form internal relationships with other group companies where they don't perceive them to be in their interests. In extreme cases, there may be so many defections that the rule itself breaks down.

Underlying many transactions associated with internal trading are fundamental philosophies or values based around:

- The desirability of internal companies to co-operate, and
- The welfare of the group as a total entity.

Intragroup trading mandates or signals of encouragement to co-operate together are more likely to be countenanced by actors where there is an underlying belief that co-operation between group companies is a desirable attribute no matter what the outcome is to themselves, or where group interests take priority over those of individual actors. Intragroup trading and transfer policies are less likely to succeed on the other hand, where individual operating actors put their own interests above those of the group, or where they believe co-operation can only be justified where their is a positive benefit to themselves no matter what the impact is on other parties.

Williamson, in his analysis of the firm, notes that problems and costs of organising transactions depends both on the nature, and also the characteristics of decision makers. (Williamson 1984). He uses a model of human nature based around three behavioural attributes: bounded rationality, opportunism and dignity. Opportunism in this context is a devious kind of self interested behaviour which assumes that at least some people might behave in strategic, guileful ways if they can do so undetected and thereby promote their own interests. Whilst the assumption of opportunism is something that might be regarded as a cynical view of human nature, Williamson recognises that its importance only requires that some, not all, people behave in this way and it is therefore difficult to tell who is opportunistic and who is not. Williamson's theories would therefore suggest that actors will tend to promote their individual interests above those of the group as a whole and only view co-operation with other group companies as a desired activity when the perceived outcome is to further these interests and improve their positions individually.

<u>6.1.2.1 Desired co-operation</u>

To gain further insight into this issue, scenarios were constructed to investigate an apparent dichotomy between group and individual interests. Scenario 48 suggested to respondents that ***'Even though the Centre refrains from defining rules on intercompany trading, there still seems to be pressures for internal companies to trade together'.*** Frame 66 was set up to measure respondents perceptions around the desirability of co-operating with other group companies. (Frame 66. Co-operation - desired. Mentions 76. Response 24/8). Analysis of the one sample t-test produced a result significantly different from zero, indicating that the majority of respondents who mentioned co-operation between group companies universally regarded it as a desired and positive attribute. No significant difference was detected between groups.

In expressing the desire for group companies to co-operate, respondents talked about it in terms of being 'emotively' right, a 'fundamental feeling' that it is the right thing to do. Views were expressed that co-operation should somehow occur 'naturally' as if there is some 'unwritten pressure' guiding the action of individual actors even in an environment where there are no clear rules or directives mandating or encouraging such co-operation. Other descriptors included the notion of intragroup co-operation being 'intuitively right', a 'natural inclination', a 'first principle' and a 'basic instinct'. One respondent raised the issue that internal co-operation was something that other stakeholders in the business (shareholders and employees) would expect to occur.

"I think that there is an element of human nature here that says that its common sense to make the most of dealing together even without rules .... I think as a good manager you will always try to deal internally first". (Respondent 1).

" .... nobody has ever said to me you must trade with this business yet I too experience that sort of unwritten pressure to try and do business with them". (Respondent 2).

"I think emotively people see it as the right thing to do. I don't think that there is anybody in the management structure who will say it doesn't make more sense to do it, to trade more intergroup". (Respondent 17).

The desirability of giving a sister company favoured status, particularly in providing access to key decision makers was also recognised by respondents. An advantage of group membership should be to circumvent and overcome barriers and gatekeepers that traditionally deny access to buyers and sellers in dyadic interaction. The requirement for co-operation between group companies in the absence of rules and policies imposed by the centre was highlighted by some respondents.

"If there were no rules, we would be very proactive in trying to trade with Euro Industries' companies, and they with us". (Respondent 34).

"You'd say, 'Well it's got to be right and you don't need anybody up the line to tell you'". (Respondent 40).

6.1.2.2 Group welfare and individual interests

This issue of group welfare was reinforced when respondents discussed and commented on the importance of group prosperity and well-being over that of individual operating companies. Scenario 46 was constructed to elicit respondent views around the desirability of putting the needs of the group above those of individual actors. Responses were recorded and measured in Frame 46. (Frame 46. Group welfare over individual - desired. Mentions 133. Response 26/10). The Mann-Whitney test indicates no significant difference between type 1 (Agrifood) and type 2 (other) respondents, whilst the one sample t-test was significantly different from zero. This indicates a strong sense of feeling amongst both groups that the needs of the total organisation should be considered above those of individual operating companies.

Respondents generally agreed that it was incumbent on senior business unit managers to take into account the implications of their actions on other parts of the group and for business unit decisions to be considered in the context of overall group welfare. Altruism amongst managers was regarded as a positive trait where policies are pursued that offer no advantage to an individual business unit but benefit the group as a whole. Respondents 32 and 33 continually mentioned the requirement to judge the effectiveness of business unit strategies in terms of their enhancement of the 'Brit Chemicals £'. The notion that group interests should prevail over those of individual units was seen as a 'philosophy' and 'mind set' that needed to be developed amongst all senior managers. A continuous theme expressed by many respondents was that of 'group loyalty' and the notion that all managers were ultimately connected through a network of activities that should be focused on enhancing overall group effort. Conflicts of interests between actors should always be resolved in terms of their benefit to the wider organisation

"I would have thought that people at least understand where their primary loyalties are, which is to the group". (Respondent 23).

" ... the moment you start doing intercompany trading, you're automatically moving from concerns just solely about your business, to overall concern about the group......but in a way you've got to actually take the two parts and say what's the advantage to the sister company, and therefore what's the overall group advantage. That's important". (Respondent 34).

" ... managers have to be big enough to understand the overall issues". (Respondent 40).

Whilst business managers might espouse the desirability of internal co-operation and the need to prioritise corporate welfare above that of the individual parts, in practice they recognise a different picture characterises organisational life. Frame 44 measured respondent views of whether actors actually place the needs of the group above those of their own, in practice. (Frame 44. Group over individual welfare - actual. Mentions 125. Response 25/10). Results of the one sample t-test were significantly different from zero. Analysis of the data suggests that managers, particularly in Agrifood, tend to be driven by the priority of their own needs, whilst feedback amongst non Agrifood respondents tends to be split around where priorities are actually directed. However the Mann-Whitney test showed no statistical difference between each group.

Many Agrifood respondents highlighted the apparent difficulty for actors to broaden their span of concern outside the boundaries of their individual business units causing local issues to continually dominate management agendas. Actors were described as introspective and inward looking pursuing policies that were directed primarily at satisfying their individual interests, even at the expense of the wider group. In extreme cases, this is characterised by actors pursuing an opportunistic drive for reward (profit) at the expense of other group companies. Encouraging actors to appreciate corporate problems and opportunities was seen to be difficult to achieve. This inward focus was perceived to be particularly strong where a business unit faced severe adverse conditions (poor results) or was fighting for survival. In practice therefore it would seem that group actors tend to be driven by individual needs and considerations whilst the entity of the group seems to be a secondary factor in influencing their behaviour. Given this order of priorities, the imposition of a rule that is perceived to disadvantage a particular business unit is less likely to succeed in achieving its desired outcome.

"Getting managers of individual business units to do things that in their eyes are of no significant advantage to them, but could be a significant advantage to the group is very difficult, if not impossible". (Respondent 5).

"I would put myself first. I would put my business first". (Respondent 13).

" .... the individual group manager will do what's right for his unit and he can put in all sorts of bonus structures of 'well there's 30% it's your own budget and 70% into the group budget' but at the end of the day he wakes up and thinks individual". (Respondent 35).

Respondents reinforced this concern for self interest when they discussed the legitimacy of mandates imposed on them by the centre. In Scenario 3, respondents were asked to react to a situation where: ***'Suppose you have a successful relationship with an external company for many years and have developed strong personal links with its people. And suppose your relationship with a similar sister company is not so good. Suddenly, the centre is encouraging you to give more of your business to your sister company'.*** Frame 67 was set up to measure respondents views of the acceptability of the centre imposing trading mandates on group actors particularly where the intended internal supplier (or customer) is perceived to be inferior to alternatives outside of the group. (Frame 67. Inferior trading partner undesired. Mentions 65. Response 20/5). Feedback from both groups highlights a considerable reticence to selectively favour internal trading partners who are perceived to be inferior. This is confirmed by the one sample t-test which is significantly different from zero. The Mann-Whitney test shows no significant difference between respondent groups.

Respondents generally believed it was unacceptable for the centre to impose a trading mandate that obligated a group buyer to preferentially support an internal seller whose product or service performance was perceived to be inferior. It was seen to be particularly undesirable to be made to support an ailing sister company by demanding other parts of the group attribute it preferential status in their trading relationships. Respondents expressed a reluctance to transfer business to favour a sister company where the action destabilised existing trading relationships or where there were long standing loyalties to external partners. In summary, actors seem reluctant to favour internal partners in circumstances when it undermines their own positions.

"I think it would be entirely wrong to do it (move business internally) just on the basis of being a sister company". (Respondent 7),

"It would bother me that you are being forced to do that". (Respondent 10)

"You do see ill informed comments 'well they should trade together and that's the end of it', I think that certainly applies to Agrifood companies". (Respondent 17).

It would be incorrect however to say that operating actors always pursue their own interests as a universal statement. Interviews with respondents 38 and 39 from Branded Foods Corp. painted a picture of a company where the group was perceived to be the dominant consideration and where individual interests were considered subservient to those of the wider organisation.

"If it's right for my business and it's right for the global business then nobody would resent that at all. If it was right for my business but not for the global business, I wouldn't be making the recommendation". (Respondent 38).

"The company culture has adapted to this change and gone through the pain barrier in order to achieve its targets, it's mission statement if you like. So with us, the group is more important than the individual operating companies. I think that's true". (Respondent 39).

6.1.2 Conclusions around legitimacy

We can conclude that trading and transfer rules are enacted in an environment where the enactors interpret these rules against the criterion of group and individual interests. The centre and the operating actors may have different views of what is defined as legitimate and acceptable. The centre may believe rules designed to advance the position of the group are wholly legitimate whilst operating actors may perceive that it is undesirable to impose rules that compromise their positions individually.

Underlying imperatives of intragroup co-operation and group welfare seem to be accepted by actors as desirable attributes of intragroup interaction suggesting that mandated rules or intimations of encouragement for actors to work together are regarded as legitimate if they increase the welfare of the group as a whole. In practical terms however, what actors feel to be right in theory and how they behave in practice may not correspond. Williamson's description of actors being driven by guileful self interests is perhaps an unfair representation as managers may have ambivalent feelings and confront difficult dilemmas in balancing their individual needs against those of the group. Therefore predictions that actors will behave in defined ways in response to imposed or implied rules is difficult to make with high degrees of certainty.

One prediction that is strongly suggestive from the data centres around the individuality and independence of actors. Observation of the data would indicate that the more the culture of the group reinforces an autonomous and independent view of actors the more likely it is that operating companies will prioritise their own interests above those of the group and question the legitimacy of mandates that compromise their individual interests. Culture in this context refers to the way things are traditionally done within the group environment and is a subject that we will return to in more detail in Chapter 8. We now turn to the issue of rule clarity and its impact on actors in intragroup relationships.

6.1. 3. Rule clarity

A related condition for the acceptance of legal norms is the clarity of authority symbols expressed in the rules themselves and the content of 'legitimised' decisions and rulings. Lack of clarity, according Katz (1964), can originate from vagueness of the stimulus situation or conflict between opposed stimulus cues and alternative rule structures. We can therefore examine the issue of clarity around the following themes:

- Clarity of rule substance.
- Clarity of rules in the context of other rules.

6.1.3.1 Clarity of rule substance

Specific laws can be ambiguous in their substance. They can be so complex, so technical or so obscure that people will not know what the edict represents. Ambiguity occurs when rules give rise to multiple interpretation. Thus a policy that encourages co-operation between group companies 'where desirable' is open to wider interpretation than, say, a policy that dictates that internal buyers must exclusively source raw materials from in house companies. In the first example, actors who are subject to the rule may have multiple and varying interpretations around the meaning of 'co-operation' and the definition of what is deemed as 'desirable'. We have seen in the previous section that what may be desirable for the group may not necessarily be so for individual actors. Similar ambiguities arise when rulings are based on notions of giving internal companies 'favoured status' or 'first opportunity'. In one example cited in the field research, an edict that dictated that an in-house supplier should have the majority of group business was open to interpretation, and at times hostile debate, around the meaning of the term 'majority'. We can therefore say as a general rule that policies that merely encourage certain behaviour between actors will always be less precise and open to broader interpretation than those that mandate that certain activities will always occur.

The theme of rule clarity was featured in Scenario 7 which suggested to respondents that ***"You seem to be continually in disagreement with a sister company over the meaning of group policy on intercompany trading".*** Frame 11 was set up to measure responses that suggested that actors place different interpretation on the meaning of group rules and policies of intragroup trading. (Frame 11. Rule interpretation - differences. Mentions 37. Response 21/7). The Mann-Whitney test indicates no significance difference between groups. A positive mean score of 1.2 recorded by each group, indicates that multiple and varying interpretation of mandates is not an uncommon occurrence in intragroup relationships. This is supported by the one sample t-test which is significantly different from zero.

The issue of multiple interpretation was highlighted by many respondents. For some it seemed to be a constant theme of their relationships and a potential source of intense conflict when allowed to continue unchecked. The more prescriptive the group becomes in its involvement in intragroup trading the more relevant this seems to be an issue.

"What I find is, there are general rules and general guidelines saying how you should work between your sister companies, but nobody's actually precise and it's left up to the interpretation of the senior managers. So we're finding that different managers interpret different rules which is creating quite a lot of confusion". (Respondent 40).

Respondents highlighted instances where the ambiguity of rules was deliberately used by actors to further their own interests especially in situations where they objected to their content. Arguments over interpretation were variously described as a 'delaying tactic', 'playing ping pong', and 'a way of getting round the rules'. Disagreements were seen as a way of 'avoiding doing business' by putting up 'artificial and false barriers'.

"I recognise this as a first class excuse for why the relationship hadn't progressed or the business activity hadn't increased. .... 'We're satisfying that group policy. We've done enough. This is our understanding of it. Don't understand your rationale'". (Respondent 3).

A counter dynamic to successful rule enforcement may therefore be a tendency to use legal loopholes to defy the spirit of the rules. Any complex maze of rules in an organisation will be utilised by what Katz (1964) refers to as the 'guardhouse lawyers in the system' to their own advantage. Disagreements around priorities may be intensified where actors deliberately seek to interpret the rules in ways most favourable to themselves.

The theme of favourable interpretation was featured in Scenario 8. Frame 12 attempted to measure respondent views of whether actors have a tendency to selectively interpret mandates in terms most beneficial to themselves. (Frame 12. Rule interpretation - selectivity. Mentions 24. Response 12/5). Overall, the one sample t-test was significantly different from zero. Although less than 50% of respondents expressed views recorded in this frame, those that did, almost exclusively mentioned selective interpretation as a feature of existing or past relationships. No significant difference was ascertained in responses between groups.

Tactics of using the rules 'to your own advantage' or 'reading meanings' into rules that best fits peoples' interests was highlighted by a number of respondents. The problems associated with 'rule bending' were again identified as possible sources of conflict in intragroup interaction.

"I suspect that you would always be trying to interpret the policy statement in your favour ..... Everybody is bound to interpret a policy to their favour and you are bound to get tensions around that". (Respondent 18).

"I suppose it's human nature that they interpret those policies in the most positive light to themselves". (Respondent 37).

We conclude that whilst the centre might deliberately define rules in a loose way so as to give operating actors leeway in reaching their own decisions and agreements, this necessarily blurs the clarity of the rules and introduces ambiguities and potential for disagreements. Ambiguity in rule definition gives rise to multiple interpretation of meaning that actors will tend to exploit by deciphering rules in ways that best fit their individual interests. Differences in interpretation can be used by actors to impede the process of interaction with other group companies and may become sources of conflict within their relationships.

6.1.3.2 Rule clarity and the influence of opposing rule systems

In some organisations, symbols of authority manifested in rules and regulations are sharply enough defined, however the relationship with competing symbols may give rise to ambiguities that undermine the clarity of differing rule sets. All organisational behaviour is influenced by explicitly defined or implicitly derived sets of rules. Trading and transfer policies are enacted in an environment where actors are subject to rules that constrain their behaviour in many ways. Rules may define what is ethically and morally acceptable in defining how people relate to each other within organisations. Actors are guided by general laws that govern society at large. (For example: health & safety legislation, employee rights etc.). These rule sets are not discrete and overlap each other in many ways. In certain instances, they may complement and reinforce each other. In other cases, they may act as contradictory and opposing forces that may undermine each others' effectiveness.

Intragroup trading and transfer rules do not operate in a vacuum or within discrete organisational boundaries. They will be impacted on, and simultaneously influence, other rules that shape how actors behave and how they define various priorities. One such rule set that has a particular influence on the functioning of trading and transfer mandates embodies those rules that define how actors are measured and rewarded.

We have seen that multi-divisional companies that are organised into fairly self contained business units, commonly reward managers on the basis of financial performance of those units in achieving predetermined budgets and targets. The head of each division is responsible for its operating performance which is judged by indicators of its success in its markets. Indicators include measures such as operating profits, sales growth or market share (McGuinness 1996). Repeated failure to perform to required standards usually evokes punishments that penalise business unit managers' personal remuneration or status. Business units may lose their identities by being integrated into other parts of the group or divested to other organisations. For many companies, the message to business unit managers is a simple one, 'achieve targets or beware the consequences'.

Group actors are likely to be sensitive to trading and transfer rules that they perceive have a detrimental impact on their attainment of performance targets (for example by being forced or encouraged to use a group supplier whom they regard as inferior to existing suppliers outside of the group). In certain circumstances, rules defining the success (or otherwise) of operating actors may contradict policies around intragroup trading and transfers. Actors may face real dilemmas in defining priorities between various rule sets.

The issue of potential contradictory tensions between trading mandates and performance measures was identified at the preliminary research stage of the survey. In Scenario 13, it was suggested to respondents that ***"Your group continuously encourages greater co-operation between internal companies yet at the same time values individual accountability and focused responsibility to achieve individual budgets and targets".*** Frame 21 was set up to record statements that suggested that individually-focused measurement and reward systems were consistent (+) or incompatible (-) with mandates enforcing intragroup co-operation. (Frame 21. Measurement/mandate compatibility. Mentions 77. Response 27/8). Whilst the mean scores for both groups were negative (type 1 respondents -0.4, type 2 -1.1) indicating some incompatibility, there was a diversity of opinion between respondents whether individually-focused measurement processes were conducive to fostering co-operation between actors. Overall however, the one sample t-test was significantly different from zero. The Mann-Whitney test indicated no significant difference in responses between groups.

The difficulties of reconciling the requirements of both systems was identified by some respondents as 'a fundamental clash', 'a paradox and dichotomy', 'a real dilemma' and something that was 'great in theory, but difficult to implement'. The situation is well summed up in the following quotation.

"That is, I think, the great problem of large companies. We're all expected, and I'm being absolutely hammered when I'm below budget, and I must achieve come hell or high water. But I'm also being asked to work with my colleagues and understand for the greater good of the group. We need to be more lenient with sister companies if you like. It's an area I don't think is understood well enough. ..... you're asked to co-operate and understand the other parts of the group but you are also asked to achieve a very precise targeted figure. The two aren't compatible often". (Respondent 40).

Respondents pointed to the fact that mandates diminish or confuse accountabilities of individual actors. The more that co-operation is 'forced' between actors the less accountable they become for their individual actions, and the more the centre assumes indirect responsibility for eventual outcomes. Mandates can potentially become excuses for under-achievement.

"Agrifood .... is in this transition where it has individual profit centres and yet it's trying to form some type of co-operative and it doesn't work because you fur the edges and a lot of the responsibilities and accountabilities now within the organisation, aren't clear". (Respondent 21).

Even where respondents believed there was some degree of compatibility between mandate and accountability, the need for 'trade offs' and 'balances' was still seen as an important requirement to accommodate the demands of both policies.

Feedback from the research also shows that the effectiveness of mandates for intragroup co-operation is impacted by rules that define the reward systems of actors. Respondents pointed to the fact that personal incentive schemes operating within their organisations can inhibit rather than enhance co-operation between various parts of the group by encouraging actors to put their own interests first. We have seen in a previous section that the more actors put their interests above those of the group, the more they are likely to challenge the legitimacy of trading and transfer policies that compromise their individual positions.

To summarise, trading and transfer policies do not operate in isolation. They may have to compete with other organisational rules that simultaneously exert influences on the behaviour of actors. Rule execution may require trade offs and compromises which can undermine their effectiveness. Competing rule systems may give rise to ambiguities when interpreted together. Corporate decision makers need to be aware of potential contradictions amongst various rule sets when designing policies around intragroup trading and understand the possible limitations that these impose.

6.1.4 Reinforcement

To maintain the acceptance of legitimate authority there has to be some form of reinforcement in the form of penalties for violation of the rules. If there is no policing of rules they may lose their force overtime for many people. Where there is no enforcement by authorities and no sanctions for violations the rule in question may become nullified and ineffective.

6.1.4.1 Formal monitors and controls

Policing relationships in multidivisional companies is, by its very nature, a tall order. The centre cannot be involved in every transaction or every episode of interaction between group actors. To do so would soon reach the limits of 'bounded rationality'. Operating actors may resent intrusion on their 'privacy' and regard intervention as an illegitimate incursion on their domain, signalling a lack of trust on behalf of the centre. Yet there may be times when the centre perceives the need to monitor progress of its internal relationships, especially where it suspects that policies are not being adhered to.

Frame 15 was set up to highlight the use of formal reporting and feedback mechanisms by which individual operating actors report details of their relationships to the centre. (Frame 15. Formal monitoring - actual. Mentions 16. Response 8/3). Examples of formal controls potentially include monitoring the level of internal business transacted between group companies, monitoring the proportion of a buyer's business supplied by in house companies or regular reporting of joint initiatives and projects. In Scenario 12, respondents were told that ***'The policy of your group has changed to encourage more interaction between sister companies. Someone at the centre has stated that the only way this can be achieved is to develop formal reporting and control systems'***. The low level of response recorded in Frame 15 suggests that policing through formal monitoring and control processes tends not to feature strongly in the relationships examined in this study. Results from the one sample t-test are not significantly different from zero.

Respondents tended to voice stronger opinions around whether formal monitoring should be adopted by the centre. (Frame 16. Formal monitoring - desired. Response 27/8. Mentions 73). On average, responses tended not to favour the use of formal control mechanisms and questioned their effectiveness in enhancing closer co-operation between actors. (Mean scores -0.5 type 1, and -0.3 type 2). However the wide diversity of opinion expressed by each group indicates that results are inconclusive in this frame. Again, the one sample t-test shows no significant difference from zero.

'Of course you've got to have some way of monitoring what's actually happening otherwise people will just say we're doing it and it won't be happening. So I don't have any problem with formal reporting and control systems not as long as they are relevant and un-bureaucratic and not burdensome and are reporting events that matter. (Respondent 23).

'I know pretty well which intercompany relationships work and which don't, and you can report a bad relationship till the cows come home, but it's not going to make it a good one. All that does is to record the symptom, it doesn't provide the cure'. (Respondent 26).

6.1.4.2 Punishments and sanctions

An alternative form of reinforcement that can be utilised by the centre to implement its policies is through the imposition of sanctions and punishments on business unit managers who flout or ignore its wishes. These may vary in their extremity from a 'slap on the wrist' to loss of position and ultimate dismissal as the following quotes illustrate.

"Personal punishment is usually that your next year's bonus isn't done on the same basis or your lines of progression within the company, I suppose. slow down". Respondent 1.

"I'd be under no doubt that if the Chief Executive felt and could determine that there was real benefits by a greater degree of co-operation and collaboration within a group, and an operating unit which isn't doing that well is not taking advantages of these opportunities, then ultimately there's only one course of action open to you, you make changes to the people involved, because the group's potential value is being diminished as a result of the actions of individuals". Respondent 28.

Whilst various punishments are, in theory, available to the centre, evidence from the field research indicates that the imposition of sanctions seems not to feature strongly in the management of internal relationships in the organisations under review. There is little evidence of operating actors or individuals being formally punished for failure to respond to group policies and mandates. Frame 17 recorded respondent perceptions of whether punishments were used by the centre to enforce policies in their organisations. (Frame 17. Punishment - actual. Mentions 63. Response 23/5). Average score recorded for Agrifood respondents measured -0.7 and other respondent -0.9, indicating a perceived absence of punishment mechanisms. Results from the one sample t-test were significantly different from zero. No significant difference was found between the groups. For some, punishment was seen as a tactic of last resort to be used only when other measures had failed.

"I mean there might be a slap on the wrist but there's rarely any more stringent action taken than that which perhaps only encourages people not to follow the rules too carefully if it suits them. I suppose what I am saying is that there might just be a hell of a row about it, the storm blows over and life carries on". Respondent 24.

There was some recognition however that the likelihood of sanctions was proportional to the importance the centre attaches to intragroup trading. Therefore the probability of penalties and punishments being wielded under a mandated trading policy is greater than where the centre merely encourages interaction between its business units. (The latter represents the dominant form of trading policy of groups featured in this study). We can conclude therefore that whilst sanctions may not be presented as codified frameworks or formalised punishments, the threat of their imposition may shape the expectations of actors in the way they behave towards each other and their relationships with the centre.

6.2 Reactions of actors to rules governing intragroup trading

In previous sections we have defined conditions for maximum effectiveness of rules governing intragroup trading. Legitimacy, clarity and the reinforcing character of sanctions have been highlighted as significant influences for successful enactment and implementation. These variables need to be considered by policy makers at the centre when deriving internal trading strategies. We now turn to examine rules from the standpoint of the actors who are the focus of edicts and directives surrounding intragroup trading.

We must first of all make an obvious point that where actors are in agreement with the content and substance of trading or transfer rules then implementation seems not to be an issue. We have seen that rules are likely to be accepted when actors perceive that their interests are furthered by adopting the terms of the ruling. They are also likely to countenance rules where they support and commit to the underlying principles that form the basis of particular rulings. Problems arise when actors do not perceive that their best interests are served by following a particular rule or where they disagree with the fundamental imperative on which the rule is based.

When actors are in disagreement with the terms of mandates governing internal trading they essentially have two course of action available to them.

- Seek to change the rule.
- Seek to subvert the rule.

We shall go on to examine evidence of actors adopting these particular responses, but before we do so, we must first recognise that there are circumstances where actors may favour the adoption of rules governing their interaction with other members of the group.

6.2.1 The desire for rules governing intragroup relationships

Clarity of purpose aligned with well defined rules is often presented as a condition for making a particular system or situation attractive. People know what is expected of them and what they should expect in turn from others. They may much prefer this clarity to a state of uncertainty and ambiguity that may accompany an absence of rules.

Respondent views of the desire for rules governing interaction with sister companies was recorded in Frames 2 and 6. The former focused on the desirability of rules in the form of trading mandates. (Frame 2. Trading rules - desired. Mentions 32. Response 15/2). The low level of response, is attributed to the fact that when respondents talked about trading rules and mandates they tended to do so in terms of their effectiveness rather than their desirability and this was recorded within a different frame (reported later in this chapter). It is therefore difficult to draw conclusions from the data at this stage.

Frame 6 measured respondent views of the desirability of transfer rules. (Frame 6. Transfer rules - desired. Mentions 48. Response 19/6). Responses recorded in this frame were more conclusive. In situations where respondents talked about transfer rules they tended to do so in terms of their desirability with the results of the one sample t-test being significantly different from zero. Mean scores for Agrifood respondents were 1.0 and other respondents were 1.7. The Mann-Whitney test showed no significant difference in responses between groups.

The attractiveness of explicit and uniform transfer rules was identified by many respondents. We saw in Chapter 5 that one of the rationales for adopting transfer rules was to minimise debate, argument and disagreement between actors. Rules were seen as assisting the process of interaction by eliminating the requirement for time wasting negotiation and debate. They provide a degree of consistency and predictability which actors can commonly identify with, and which act as a 'catalyst to trading'. Transfer mechanisms were seen as a way of avoiding conflict.

"I think that individuals at the operating level who have to carry out these sorts of trading relationships would feel at least there is now if you like a discipline in the way things operate, because a lot of time and energy is wasted on, for example, internal transfer of product and the negotiations on price, and this seems totally ridiculous to do that when you've got customers outside". (Respondent 32).

The data suggests that actors may not desire the imposition of trading rules. However in circumstances where the centre imposes a mandate that dictates that companies interact and work together, operating actors may find it preferable for the centre to further define the terms of interaction by specifying rules covering the transfer of products and services, thus avoiding potential conflicts and disagreements. In certain circumstances therefore, operating actors may welcome intervention by the centre in defining the terms of their relationships.

6.2.2 Lobbying tactics for change

When operating actors disagree with the terms of a trading or transfer mandate, one course of action open to them is to seek to change the terms to those they perceive as more favourable to themselves. Actors may therefore seek to persuade and influence the centre to modify its policies to reflect their positions as they see them. Interaction between operating actors and the centre may take on the characteristics of a political lobbying process where various factions campaign to persuade legislators to make laws favouring their particular interests.

Evidence of the use of influencing tactics by actors was featured in Scenario 6 where respondents were told that ***"You hear on the grapevine that a sister company has been trying to influence people at the centre to change the rules on transfer pricing in favour of their business"***. Frame 13 measured respondent views of whether actors seek to persuade the centre to change the terms of mandates in their favour. (Frame 13. Lobbying - actual. Mentions 96. Response 30/10). Results from the one sample t-test show a significant difference from zero indicating that the use of lobbying tactics seems common amongst operating actors who challenge, and seek to change, the terms of group policies. (Mean scores type 1 respondents 1.3, type 2 1.6). No significant difference in responses was recorded between groups.

Actions targeted at making the centre re-evaluate or abandon its policies on internal trading were highlighted by respondents, some of whom admitted to having been involved in similar campaigns. For some, it was considered a 'fact of life' of intragroup trading, what one respondent saw as 'strategic influencing'. Others associated it with symptoms of a deteriorating relationship. Actors may perceive the need to lobby as a defensive measure in the expectation that the other party is following a similar course of action. Lobbying may take on the characteristics of a classic prisoners dilemma where a favourable outcome for one party is likely to be detrimental to another. The lobbying process itself, may take many forms. Formal approaches include the use of 'letters of persuasion' or, as one respondent recounted, a petition signed by senior managers of the business unit. Informal influencing tactics may take the form of surreptitious approaches in 'side conversations in the corridor' or over the dinner table.

"This often comes down to clout of course, so the bigger companies if they are going to be disadvantaged will play all kinds of games, set up major campaigns to have rules altered, changed in some way". (Respondent 34).

"This does happen. In fact, I've been guilty myself. We all do it". (Respondent 40).

A more extreme form of the lobbying process occurs when one party tries to bring to the attention of the centre, the shortcomings of another. By highlighting the inadequacies of an internal supplier for example, a group buyer may try to prove that a trading mandate is unfair and unjust. In Scenario 38, respondents were confronted with a situation where **'You know that a group company are reluctant to deal with you. You hear on the grapevine that it has been attempting to discredit you with people at the centre by revealing recent service problems'.** Frame 59 recorded responses which suggested that internal companies seek to influence a centre's perception of each other. (Frame 59. Centre perception influence. Mentions 75. Response 30/9). Whilst overall scores in the one sample t-test were significantly different from zero, the Mann-Whitney test indicated a significant difference between Agrifood and other respondents. 'Strategic influencing' seemed to feature more predominantly in Agrifood relationships (mean score 1.3) than other relationships (mean score 0.3). One respondent in Agrifood cited an extreme illustration where two operating companies in the same division made separate but co-ordinated approaches to the centre to complain about the performance of a common group supplier.

Whilst actors may seek to influence the centre's perceptions of their trading partners to their own ends, the use of lobbying carries with it some significant risks. The centre may lose patience with continuous arguments between its operating companies. The level of trust can rapidly diminish between actors when one suspects that the other is attempting to take advantage by manipulating it's position with the centre to change the terms of a mandate; particularly where it believes its reputation within the group is being manipulated by a trading partner.

6.2.3 Subversion tactics

When actors object to the terms of a mandate, they may seek to resist its implementation by:

- Directly refusing to execute its terms as specified.
- Erecting barriers and obstacles that reduce its effectiveness or render it inoperable.

In Scenario 29 respondents were asked to comment on a situation where ***"Suppose that the centre directs that you have to purchase a proportion of your raw materials from a group supplier despite the fact that there are better suppliers within the market".*** Scenario 28 featured a similar event, but from the perspective of an internal seller. Frame 48 was set up to measure responses which suggested that operating actors would seek to resist or circumvent a mandate they objected to and disputed. (Frame 48. Mandate opposition - actual. Mentions 108. Response 26/8). We saw earlier in Frame 67 (section 1.2.3) that respondents believed it was undesirable for the centre to mandate interaction with a trading partner that was regarded as inferior to those outside of the group. Frame 48 strongly indicates that when a mandate is not perceived to be in their interests, actors have few reservations in seeking to oppose or resist its introduction. Results were similar across both groups of respondents. (Mean scores 1.5 and 1.2. No significant difference recorded by the Mann-Whitney test). Scores for the one sample t-test were significantly different from zero.

Many respondents described their resistance in forceful terms.

"I've been dragged screaming and kicking into the Tastetec agreement". (Respondent 3).

"If it meant that our business volumes would fall ..... I would totally resist it". (Respondent 7).

"It's no good you saying 'you've got to do it' because it will never happen. People will fight against it". (Respondent 16).

"I've consistently been asked to stop dealing with this company and put all production into us (within group), and I've come up with the reasons why you shouldn't do that". (Respondent 40).

In seeking to avoid the terms of a mandate, respondents described 'constructing ways of preventing trading relationships' by 'making it difficult to trade' and doing things to 'hinder the imposition'. Respondents talked about accentuating and publicising all the problems associated with the implementation of a mandate by being hypersensitive to nuances of product performance, service quality and other problems and difficulties.

"If you were forced to do something like that and it would cause problems, you would tend to publicise the problems it caused, for sure". (Respondent 6).

Concealed barriers, that inhibit imposition of a trading mandate, can be constructed in numerous ways. Respondents described means of concealing information from sister companies and in extreme cases, deliberately falsifying data to their own ends. One respondent recounted an incident where it was believed that an internal buyer was giving a fuller information disclosure of product development requirements to an external company to bias advantage in their favour.

It is extremely difficult for the centre to prove the existence of these artificial hurdles due to its remoteness from the mainstream activities and episodes that define relationships between sister companies. Feedback from the field research essentially dispels the image of the centre as an all-pervading power, issuing edicts and commands around intragroup interaction and transaction which operating actors dutifully implement no matter what the consequences to themselves. In circumstances where the centre mandates that group companies must interact and exchange goods and services, there is no guarantee of that happening; which leads us to challenge the effectiveness of mandates that essentially attempt to 'enforce' co-operation between group actors.

6.3 The effectiveness of rules governing intragroup relationships

Throughout their interviews, respondents continually made reference to the effectiveness of trading mandates. This was a area where respondents seemed to have strong impressions and views. Frame 3 was set up to record and measure respondent comments on the effectiveness of rules that are intended to invoke and enforce co-operation between actors. (Frame 3. Trading rules - effectiveness. Mentions 80. Response 24/7). Results from the one sample t-test are significantly different from zero indicating that when respondents discussed the effectiveness of trading mandates they did so in negative terms. This applied to both groups of respondents in Agrifood and other organisations. (Mean scores -1.6 and -1.8 respectively). No significant difference was recorded in responses between groups.

A theme underlying many responses suggests that far from engendering an atmosphere of co-operation between actors, in practice, rules often achieve the opposite and are counterproductive in bringing actors closer together. There are a number of reasons why rules may be inefficient in promoting co-operation. Firstly, managers may resent the intrusion of rules which limit their freedom of choice and compromise their independence. They may see the imposition of rules as representing unacceptable incursions in their particular domains and therefore seek to minimise their impact. The more the group promotes the independence and autonomy of its business units, the more likely it is that managers will be averse to rules that constrain and limit their behaviour.

"This is a very sensitive area for the business. People do not like being told where to buy. They like to be responsible for all the day to day issues that happen in business". (Respondent 7).

"They have encouraged very actively the development of autonomous business units ...... So anybody coming down heavy handed, trying to impose policy would find it difficult to achieve. (Respondent 32)

A second reason why rules may be inefficient in developing co-operation is because actors may suspect ulterior motives behind their introduction. They may be suspicious that a trading partner has somehow engineered the rules by manipulating the centre to favour its particular interests. They may regard trading mandates as a form of indirect influence exerted through the centre. We have seen in a previous section that it is not uncommon for actors to lobby the centre to change rules to suit their interests.

A number of respondents highlighted the fragility of relationships when discussing the effectiveness of mandates. Results from other studies suggest that for relationships to develop into stable patterns of interaction, actors need to feel comfortable with each other as they gradually develop trust in each other's abilities and intentions. Such a process was recognised by Ford (1980) when he identified a number of sequential stages that characterise the formation of relationships between actors in networks. Conclusions from this study indicate that processes that seek to shortcut the bonding between actors, by artificially bringing them closer together through the use of edicts and commands are more likely to fail in developing close co-operation between actors. Mandated relationships tend to be more fragile and more susceptible to breakdown particularly if the circumstances that defined their creation, change (for example, where the mandate is removed when one of the operating actors is divested by the group).

In the view of many respondents, the best position that the centre can hope to achieve is to catalyse the process of bonding between actors, but it can never effectively provide the bond itself. Central authority cannot substitute for actor desire and motivation in the formation of stable relationships between actors.

"Inter company trading policies can be established, but you can't force companies to trade". (Respondent 4).

"I think I would summarise by saying that you can't force sets of rules, you have to get agreements". (Respondent 15).

"I think that to get a good smooth operation between sister companies, there's got to be a desire of the people inside those companies to actually want to trade. I don't think that being set rules and policies can actually make you want to do it. I think that it is a philosophy in the mind rather than rules". (Respondent 16).

"I think very much you can encourage people to trade together and you can do this both through incentive schemes if you like and general encouragement. To lay down rules to make sure it happens I think is very difficult and non productive". (Respondent 19).

"The relationship will be stronger if people feel they are doing it out of choice rather than doing it by dictate". (Respondent 20).

"I (a divisional CEO) can't tell them to do it. I can only persuade them and get them together". (Respondent 26).

Corporate centres wishing to engineer co-operation between reluctant parties should be aware of the problems created by the imposition of mandates and recognise the potential fragility and instability of the resulting relationships. We can conclude that corporate centres choosing to directly influence relationships between their business units through the use of mandates and directives should consider the possible pitfalls and drawbacks before arbitrarily implementing their policies across the group.

6.4 Conclusions

This chapter has been concerned with the effectiveness of rules governing intragroup relationships presenting evidence in support of Proposition P2. The first part of the proposition (2A) defines the conditions for the effective operating of rules and proposes that the effectiveness of mandates governing intragroup interaction is a function of three factors:

- Operating actors' recognition of the authority of the centre to impose mandates on group companies.
- Each actor's perception of the meaning of the mandate.
- The strength of policing and control mechanisms.

We have examined evidence in support of these elements of proposition P2 through the use of a number of content frames. Frame 14 investigated whether corporate centres are seen to have the right to impose trading mandates over operating actors. Frames 66,46,44 and 67 examined certain fundamental principles underlying intragroup trading. They indicate that the authority of rules themselves must be based on specific imperatives which are supported and obeyed by all. In terms of actors' perceptions of the meaning of mandates, Frame 11 and 12 highlighted how actors can attribute different meanings to corporate mandates, particularly where they advance their individual positions. Frame 21 showed how the meaning of mandates cannot be interpreted in isolation and must be evaluated alongside other organisational rules that simultaneously exert influences over the behaviour of actors. Finally, Frames 15 and 16 examined evidence for the use of formal controls by corporate centres in the imposition of rules over operating actors, whilst Frame 17 investigated whether these are supported by formal policing policies in the form of penalties and punishments for non compliance.

Our evidence indicates that the imposition of rules over operating actors is not straight forward. A corporate centre needs to ensure that certain conditions are met if mandates are to operate effectively. Our analysis shows that relationships between group companies are likely to be problematic when the objectives of the operating actors (either one or both of them) deviate from those of the centre. When a corporate centre wishes to impose its requirements on reluctant trading partners it must ensure:

- It's authority is recognised by both actors.
- The clarity of rules ensure narrow and precise interpretation.
- Operating actors perceive the existence of policing mechanisms and the threat of associated punishments.

These conditions would tend to support the first part of Proposition (2A); however our analysis also shows that rules may be compromised because:

- Whilst the authority of the centre may not be disputed, its freedom to impose trading and transfer rules over operating actors is bound by norms that define legitimate behaviour.
- Actors may disagree on fundamental principles that underlie trading and transfer rules, particularly those that promote group interests above those of individual actors.
- Rules may be ambiguous in their substance and subject to broad interpretation which actors may use to further their own interests.
- Trading and transfer rules cannot be considered in isolation of other organisational rules which may constrain and influence actor behaviour in complementary or opposing ways.

The second part of the proposition (2B) deals with the response of actors to the imposition of rules and proposes that whilst the centre may mandate interaction between operating actors for the benefit of the group, operating actors themselves may favour external relationships over internal relationships in pursuit of their network goals and objectives. Under these circumstances:

- Operating actors may seek to influence the centre to modify the terms of mandates in ways advantageous to themselves.
- Operating actors may seek to challenge or circumvent a mandate that limits their interaction with trading partners external to the group.

We have examined this part of the proposition by investigating whether operating actors use lobbying tactics to seek to change the content of mandates (Frame 13), or whether they deliberately attempt to influence a centre's perception of each other to their own ends (Frame 59). In Frame 48, we have looked at evidence for operating actors seeking to circumvent or resist mandates to which they are opposed. Finally, we have commented on the overall effectiveness of trading rules in fostering co-operation, and developing stable relationships between actors within a group (Frame 3).

Analysis of the relationships investigated in the field research has revealed evidence that that generally supports the elements of this part of the proposition. We have highlighted the use of lobbying by operating actors to change the conditions of rules and mandates. We have also seen that indirect influencing tactics can be employed that deliberately attempt to shape a centre's perception of a group trading partner to achieve a similar means. We have presented evidence to show that actors can erect barriers that inhibit the imposition of rules where they do not perceive these to be in their best interests.

In general, our analysis questions the general effectiveness of relationships that are founded on external rules rather than being created through more 'natural' bonding processes associated with network interaction. Corporate centres wishing to co-ordinate the activities of their business units through the use of mandated forms of co-ordination policy must be aware of the commitment and effort required to ensure successful implementation, and recognise that the formulation of rules by a corporate centre is no guarantee of their success.

Chapter 7
External influences in intragroup relationships

Introduction

Analysis of intragroup relationships up to this point has focused on the behaviour of individual actors that form the basic intragroup triad. The focus of this chapter is to view these relationships from a wider perspective and examine the influence of other actors that are either external to the triad but internal to the group, or external to the group itself. The chapter builds on the theme of external influences identified in the third proposition (P3) which again is presented in two parts.

3A - Interaction between operating companies in an intragroup relationship is conditioned by:

- **Indirect links with other group companies outside of the basic triad.**
- **Direct and indirect links with alternative customers and suppliers outside of the group.**

3B - Internal and external customers of the supplier may be competitors of each other in downstream markets. Similarly, internal and external suppliers to the buyer may also be competitors. Therefore:

- **Relationships between operating actors conditions potential interaction with alternative buyers and sellers.**
- **Relationships between alternative buyers and sellers may also affect relationships between the operating actors.**

In section 7.1, we introduce the concepts of direct and indirect influences in buyer seller relationships and identify a number of important influences outside of the main triad that potentially condition the behaviour of internal actors.

In section 7.2, we identify how relationships between other actors in the group can affect relationships between actors in the triad. (Part 3A of the proposition). We note that links between group buyers can make the task of managing internal relationships more complicated for internal suppliers.

Sections 7.3 and 7.4 focus on part 3B of the proposition. In section 7.3, we recognise that a relationship between a group actor and buyers and sellers outside of the group can be sensitive to an internal trading partner who may be in competition with these buyers and sellers in upstream or downstream markets. We note that sensitivity is heightened when an external customer is perceived to be given a favoured status which disadvantages the competitive position of an internal customer. The latter is likely be particularly sensitive of the flow of information between an internal trading partner and its competitors outside of the group.

In section 7.4, we identify how relationships between internal actors can influence their relationships with external trading partners. The latter may perceive that the risk of developing relationships with associate companies of their competitors is so great that they may abruptly terminate future interaction or slowly withdraw commitment over a period of time. External actors may be particularly sensitive to the risk that internal companies are under pressure to pass commercially valuable information to other actors within their group.

Our analysis will reinforce the notion that intragroup relationships must be viewed within a network context even inside the boundaries of the group organisation.

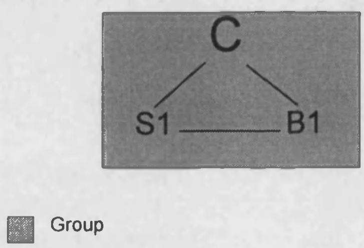
7.1 Direct and indirect influences in relationships

No business is an island. (Hakansson & Snehota 1989). Business organisations operate in an environment where their behaviour is directly conditioned by a limited number of counterparts each of which is unique and goal oriented. Relationships are formed through exchange processes in a series of interactions that link the activities of actors together. Since other parties to the interaction also operate under similar conditions, an organisation's performance is influenced by the totality of the network including interdependencies of third parties. What is transacted and produced in a relationship can affect and is affected by other relationships involving other actors.

Business organisations operate in networks where they will have a series of direct and indirect relationships. An indirect relationship is described as 'the relationship between two firms which are not directly related but which is mediated by a third firm with which they both have relationships' (Easton 1992). Examples of indirect relationships include that of a firm and its customer's customer, or a firm and its competitors linked through a mutual customer. Mattsson (1986) notes that indirect relationships provide the context for direct relationships and are capable of strongly influencing them. It is likely that a firm will have more indirect than direct relationships which adds to the complexity of relationship management. To fully comprehend the nature of a relationship, we must view that relationship in the context of other network relationships. (Johanson & Mattsson 1987).

Actors in intragroup relationships are therefore likely to have a series of direct and indirect relationships. Taking the basic intragroup triad as a unit of analysis (Fig 7.1), internal supplier S1 and internal buyer B1 will both have direct relationships with the Centre C.

Fig 7.1



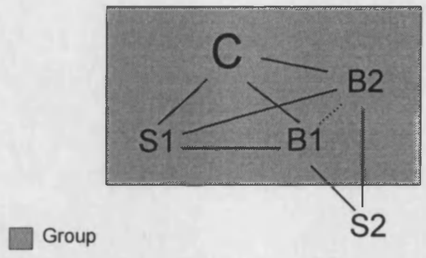
However the relationship between S1 and B1 will also be conditioned by a number of other influences. These fall into two categories.

- Other group actors external to the triad (Indirect internal influences).
- Other actors external to the group (Indirect external influences).

7.1.1 Indirect internal influences

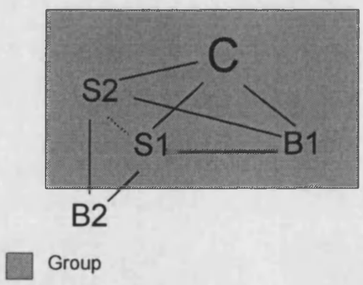
An example of internal indirect influence on a focal intragroup relationship is given in Fig 7.2

Fig 7.2



In this case, an internal supplier S1 may have direct relationships with group buying companies B1 and B2 as a supplier of raw materials or other goods and services. Buyers B1 and B2 may be connected, for example, by being in the same division, ultimately reporting to the same divisional CEO. They may exchange information on common suppliers including those within the group. Therefore the relationship between B1 and B2 can indirectly influence the focal relationship between S1 and B1 within the intragroup triad. An external supplier S2 may also be influenced in the same way. It can be seen from Fig 7.2 that ultimately all internal relationships are connected via the centre.

Fig 7.3



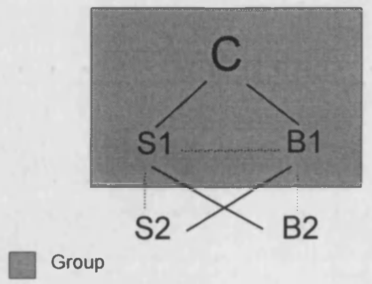
A similar situation is presented in Fig 7.3 Actors S1 and S2 could be suppliers of complementary raw materials to an internal buyer B1. The focal relationship S1 and B1 will be conditioned partly by any relationship between S1 and S2 who may exchange information on common customers. External buyer B2 will be similarly affected.

The first of these situations was investigated in the field research to ascertain if there is evidence that buyers exchange information on common suppliers inside or outside of the group. The results are featured in Part 2 of this chapter.

7.1.2 Indirect external influences

An example of an external influence on a focal intragroup relationship is provided in Fig 7.4.

Fig 7.4



In Fig 7.4, buyer B1 has supply relationships with an internal supplier S1 and an external supplier S2. S1 and S2 are related as competitors, therefore supplier S1 may be particularly sensitive to the relationship between B1 and S2 claiming it assists competitors to the group as a whole. A similar situation arises where an internal supplier has relationships with buyers internal and external to the group. Relationships with alternative buyers and sellers may therefore condition relationships between operating actors. This situation is examined in Section 3. The analysis sets out to determine whether internal companies are especially sensitive of other relationships of their customers or suppliers outside of the group.

The relationship between S1 and B1 will also influence the relationship between B1 and S2. External supplier S2 may perceive that S1 has an advantageous position from being in the same group as B1. It may also be suspicious of B1 passing information to S1 which reduces trust between the parties. Similarly, an external customer may have less trust of a supplier that is in the same group as one of its competitors. Relationships between operating actors are therefore likely to condition their interaction with other buyers and sellers. This aspect of intragroup relationships is examined in Section 4, which seeks to ascertain whether external buyers and sellers have a lower level of trust of trading partners who were linked to their competitors through common ownership.

We now examine the concept of indirect internal influences in more detail by analysing the relationships between buying companies within a group and their impact on a focal buyer seller relationship within a triad.

7.2. Relationships between group buyers

Liaison and collaboration between group buyers may occur when common raw materials are sourced from suppliers both inside and outside of the group. Information may be exchanged between internal buyers on a number of trading parameters including price levels, price changes and supplier performance (product and service quality, flexibility and adaptation to individual needs). Such information may be used by group buyers to improve their position in negotiation with suppliers by providing benchmarks and targets and reducing the level of uncertainty. In some cases, they may seek to combine their purchases and negotiate on behalf of the group as a whole to exploit economies of scale. Lead buying strategies may be adopted in various parts of the group where one operating company develops a specific area of expertise to purchases on behalf of the group as a whole. Such liaisons are not exclusive to group companies. External customers may develop alliances in the form of buying groups to increase their power in negotiations against large suppliers.

7.2.1 Collaboration around pricing

Respondent views of whether group buyers collaborate, or collude, to reduce prices from their internal suppliers was analysed in Scenario 20. Respondents were presented a situation where **'You have the suspicion that a number of sister companies who you supply are colluding in order to force you to reduce your prices'.** Responses were analysed in Frame 37 (Internal price collaboration. Mentions 61. Responses 29/8).

Results from the statistical analysis are inconclusive for both sets of respondents (Mean scores 0.2 Agrifood and 0.0 Other respondents). The one sample t-test showed no significant difference from zero, whilst the Mann-Whitney test indicated no difference between groups. This suggests that whilst collusion between group buying companies can occur, it is not universally common to all situations.

'I must admit I have heard of this. (Material X) is a particularly sensitive subject and the London Business School is a very good opportunity for buyers of (X) to have what they consider a constructive debate on what is a sensible price". (Respondent 3).

'I have to say a group of us have just done it to a Euro Industrie's supplier at another Euro Industries company who's price structure was too high, and indeed I've heard elements of this encouraged by a Euro Industries main board director in one instance". Respondent 34.

"I don't know I've seen it in this company..... We've had individual approaches to get us to reduce our prices but I don't think I have seen collusion to do that". (Respondent 10).

Analysis of the data suggests that collaboration amongst buyers, where it exists, can take two forms. In the first instance, it may be officially sanctioned by the centre, in the form a group buying committee which is given a mandate to represent the group as a whole. Respondent 39 from Branded Foods described a European purchasing committee that regularly met in Brussels to review group procurement. Individual operating companies may come together to exchange and pool information on suppliers including in house companies. In some cases, in house suppliers may have representation on a group purchasing committee with internal customers. This can give rise to sensitivities around information exchange especially in instances where prices are compared amongst suppliers.

Informal collaboration between buyers can develop through internal networks and personal contacts. Respondents recognised that informal collaboration was more likely to occur in the situation where an internal company seeks to exploit its group status by charging prices above that of the market generally and where there is therefore a low level of trust of the internal supplier.

"..... if you are getting feedback from the market place that prices are lower than what you are paying then you would do all in your power, and if it meant getting together with other companies to get your price reduced internally then you would do it". (Respondent 13).

"I think if you can stand by the price you're charging your sister company, you're OK. But if you are more expensive than other people in the market and you've got sister companies colluding to try and get you down to the rest of the market, then I think you deserve what you get". (Respondent 40).

A number of respondents recognised that collaboration between buyers around internal prices was less likely to occur where group transfer pricing rules were well defined.

'If there is an effective policy in force then it wouldn't happen. If there is not a group trading policy and there's a free market and your selling price is according to normal negotiation rules, maybe it could happen". (Respondent 4).

The existence of internal collaboration between buyers, or the increased potential for it to occur within the group environment, has implications for the pricing policies of internal suppliers. The issue relates to the transparency of information within a multi-business organisation (discussed in Chapter 8). Group suppliers may need to be more sensitive to the consistency of pricing in instances where a number of group companies source common materials or services from an internal supplier. This may be difficult to achieve where price is an outcome of separate negotiations with each group user. There are higher risks for internal sellers to be opportunistic in negotiations with internal customers where the latter have access to shared information. Agreements between a buyer and seller in one part of the group may indirectly influence relationships in other areas. Third party suppliers would be subject to similar requirements of consistency.

"We're in a fairly fortunate position that we do supply our ingredients to a number of sister companies and I suppose like any group situation, if they all sat down one day as buyers and compared notes on prices, they might uncover some discrepancies in pricing, shall I say, and therefore that could be a cause for some concern". (Respondent 24).

7.2.2 Collaboration around performance

The theme of internal collaboration was further developed in Scenario 21 where respondents were asked to: **'Imagine that a group buyer is unhappy with your service, and starts to tell other companies within the group'.** Frame 38 examined evidence of internal buyers sharing information on the performance of in house suppliers. (Frame 38 - Internal performance collaboration. Mentions 63. Responses 28/10).

Respondent feedback was more conclusive for this frame. Statistical analysis gives an average mean score of 1.3 for each group of respondents, with the one sample t-test significantly different from zero. This indicates that there is strong evidence that supplier performance information is commonly shared amongst group buyers (considerably more so than pricing information measured in Frame 37). No significant difference was recorded between the groups.

"I think that's quite normal. I mean it happens both intergroup and externally". (Respondent 26).

"I'm sure (Operating Division A) have told other companies that they weren't happy with Tastetec". (Respondent 29).

"Well that happens sometimes because our service levels to our sister companies are not as good as they should be in some places and that word can get around". (Respondent 34).

"That's probably happened more in the area of support services". (Respondent 36).

"Yes, we would sit around the table and we would discuss performance criteria and so on and then we'll go and hit them as a unit". (Respondent 37).

Some respondents recognised that such action was more likely to be undertaken where unsuccessful representations had been made to an internal supplier to improve its levels of performance.

"The initial approach is usually fairly direct. If nothing happens then messages start to go around a bit. People start to spread rumours or whatever, or spread the word". (Respondent 32).

A number of respondents expressed major concerns over poor performance becoming public knowledge across the group and were particularly sensitive to the damage of internal image. It was recognised that once an internal company gained such a reputation it was difficult to reverse. This was particularly true where strong informal networks existed amongst group buyers.

"It needs killing fairly quickly. It can soon do a lot of damage and it's very difficult to stop. We've had this happen to us and unless you come down heavy from above onto that individual it's very difficult to stop". (Respondent 1).

One reason for the heightened sensitivity is that poor performance can quickly become public knowledge inside the group and be communicated to the centre. A number of respondents commented that poor relationships with internal companies, caused by service or quality failures, can represent a signal to the centre that external relationships may also be problematic. Supply relationships with internal companies represent a potential mechanism for the centre to evaluate the competency of individual business units, in their overall market activities. From the centre's perspective, internal relationships represent a benchmark to evaluate an operating company's total relationship portfolio. For this reason, a number of respondents commented on the desirability of increasing the profile of poor performance of group suppliers.

"I don't see why a sister company should be protected from bad service around the group any more than an outside company. I think the thing to do is to help to bring added pressure on that particular company to improve its levels of service, so I'm sure it happens and I'm sure it should happen and I don't see any disadvantage". (Respondent 19).

7.2.3 Summary

Where internal suppliers develop relationships with a number of companies within a group, each relationship will be conditioned by the supplier's activities across all other relationships. The strength of this influence directly relates to the level of information exchange and co-operation between the various buying companies. Evidence from respondents in this study indicates that group buyers will seek to increase influence over internal (and external) suppliers by sharing information (either formally or informally), and using this information to change the behaviour of these suppliers. For supplying companies therefore, relationship management may be more complex in the group situation where more attention may be needed to consistency of approach across all intragroup relationships.

7.3. Internal trading sensitivities in intragroup relationships

Dyadic interaction between companies within the same group will be conditioned by their interaction with actors outside of the group. Except in circumstances where the centre mandates that group companies must exclusively interact with each other in their buyer/seller relationships, group actors generally have choices of interacting with potential partners internal or external to the group. Thus a group buying company may choose to source goods and services from a number of suppliers from either inside or outside of the group. These alternative suppliers are direct competitors to each other that are indirectly linked through the focal internal buyer. However external suppliers may also be regarded as competitors to the group as a whole. Internal supplying companies may therefore be sensitive of a relationship between an internal buyer and one of its competitors. Similarly, an internal buying company may be especially sensitive of an internal supplier's relationships with other customers, which also represent its competitors.

The issue of competitor sensitivity was identified in Scenarios 24 and 25. In the former case, respondents were presented with a situation that: **'An intercompany customer seems very sensitive about your relationships with other customers in the market and claims that you are assisting one of its competitors'.** Scenario 25 presented a similar situation from a supplier's perspective. Frame 42 was set up to record and measure responses that indicated a heightened sensitivity of group suppliers to competitive relationships of their internal customers. (Frame 42 - Internal supplier sensitivity. Mentions 73. Response 24/9). Frame 43 measured competitor sensitivity from group customers' perspectives. (Frame 43 - Internal customer sensitivity. Mentions 78. Response 25/7).

Results from the t-test in both frames were significantly different from zero. The analysis suggests that whilst a heightened sensitivity seems evident in both situations, it is particularly prominent amongst internal customers who seem especially sensitive of their suppliers' relationships with other customers outside of the group. Mean scores for Agrifood and other respondents for Frame 43 were identical at 1.4. The Mann-Whitney test shows no significant difference between groups for both frames.

"I do think there is an underlying paranoia by intergroup customers that we might assist a competitor, particularly in the environment in which they may not be trading well but their competitors are". (Respondent 2).

"They were concerned that this material of ours was extremely valuable and giving advantage to their biggest competitor". (Respondent 14).

"We would treat sister companies exactly the same as external companies in terms of confidentiality, but it does worry them. It worries them a lot more than external customers". (Respondent 15).

"I fail to understand the weighting that's put on these sort of things when perhaps 90% of the material that you actually consume in the group is actually sourced intercompany. The small additional extra volume in my opinion is not really what the whole issue is about. But people get very sensitive and out of proportion". (Respondent 30).

"We do have an example where we're the customer and we're concerned about another business assisting one of our competitors and we've tackled that pretty directly with them". (Respondent 32).

The focus of this sensitivity was highlighted in two areas.

- Technology transfer outside of the group.
- Information exchange with external trading partners.

7.3.1 Sensitivity around technology exchange with external partners

Sensitivity arises in intragroup trading where a group selling company develops a unique technology which offers significant advantage to buyers across the market. An internal buyer may perceive it should have priority access to such technology, especially where it has been developed using group-based R&D facilities. Internal selling companies on the other hand may perceive it in their interests to offer the technology to external customers where they have a larger share of potential demand and provide greater volume or margin opportunities. However in doing so, they place the internal company at a competitive disadvantage. The situation was identified by a number of respondents.

"This scenario I think has happened in the past and will probably happen in the future.......where we have been accused of transferring technology to their competitors and we have been asked not to supply and service those customers with certain products and services". (Respondent 8).

"You should be prepared to allow an intercompany supplier to deal with some of your competitors, but you probably don't want them to give the best technology away. They (external customers) *are always going to have second call on that technology ....".* (Respondent 17).

One response from an internal company that has been disadvantaged in this way is to exert pressure on an internal supplier to cease supplying its competitors. Leverage may be applied either directly or via the centre. A number of respondents reported they had experienced such pressures at times in the past.

"The reaction that this created was that they tried to create an exclusive relationship with us to prevent us from dealing with their competitors. They tried to restrict us from supplying competitors and what we did was to resist it intensely, saying that what in effect they were doing was restricting our profit stream". (Respondent 2).

"We have been told quite clearly that we would be heavily discouraged to trade with sister company's competitors and pass over that technology and they would certainly try to influence the parent company to ensure that we actually met with their expectations". (Respondent 8).

It was recognised that these circumstances justified the involvement of the centre as a neutral arbiter to assess the implications of the technology exploitation on the group as a whole. A number of respondents also recognised the potential need to compensate an internal company that had been restricted in its market activities because of the positions adopted by other group companies.

"If you always come back to the fact of we're going to be judged on PBIT, if the other company feels that they are being disadvantaged, then are they willing to give you a certain slug of profit that you would have gained from dealing with that competitor to prevent you doing so? If they believe that strongly then that should be the case, otherwise it's very difficult to say 'don't supply the competitor'". (Respondent 18).

The potential imposition of restrictions on the activities of supplying companies may motivate them in certain circumstances to adopt measures to conceal interaction with buyers and sellers outside of the group. One respondent mentioned how reference to external customers was kept out of monthly reports and board minutes for fear it should be picked up by companies in other divisions.

7.3.2 Sensitivity around information exchange with external partners

Competitive sensitivity can intensify when one group actor perceives that another is passing information to companies outside of the group. In some cases this may happen innocently, or out of ignorance. It was recognised that it is difficult for people to fully appreciate the implications of dealing with external customers or suppliers in large multi-divisional groups with many operating companies and business units.

"The problem of being part of a big organisation is that not anybody at any stage is aware of what potential there is within the organisation. I've been a group buyer for Brit Chemicals and I wasn't always aware of the potential customers within my organisation who I could buy on behalf of........People aren't aware of the consequences of their actions because nobody's told them and they couldn't possibly foresee it". (Respondent 32).

The need to demonstrate and maintain confidentiality in external and internal relationships was commented on by a number of respondents, who frequently mentioned the requirement to operate 'chinese walls' between group companies. This may be difficult to achieve in an environment where the culture of the group is to encourage the exchange of information between group actors through the development of 'open relationships' as described later in Chapter 8. Group actors may therefore face contradictory pressures in terms of information exchange. The need to continually reassure internal partners about the confidentiality of information added to the necessity of building trust with internal actors was regarded as particularly important in the development of stable intragroup relationships.

"You just have to assure them that they are getting sensitive about nothing and that they will always get the benefit of what we develop with these other people and then again it's down to the relationship as to whether they believe you or not". (Respondent 1)

"It would be virtually impossible to avoid potential conflicts like that and the only way through it is to maintain absolute confidentiality in all trading relationships". (Respondent 24).

7.3.3 Summary

Sensitivities can arise in intragroup relationships when internal companies interact with actors outside of the group that are competitors to companies within the group. These sensitivities are heightened where an internal company perceives that an external party is given favoured status in terms of being offered superior products or services that may disadvantage that internal company in its market place. Internal actors are also sensitive to information passing to external actors by group companies that may occur deliberately or innocently. This is likely to be more prevalent where internal companies have stronger relationships with external trading partners. These factors again add to the complexity of managing relationships between companies within a group and heighten the potential for conflict and disagreement between them.

7.4 External competitor sensitivity of intragroup relationships

Whilst the relationship between a group company and an external supplier or customer may be particularly sensitive to an internal trading partner, the situation may be equally sensitive in reverse. An external seller may be especially sensitive of a relationship between an internal buyer and an in-house supplier in which it may be in competition. The external supplier may have a lower level of trust in the in house customer because it is under common ownership with one its competitors. Similarly, an external customer may have less trust of an in house supplier of one of its competitors. Johanson & Mattsson (1987) recognised a similar set of circumstances. They identified that if company A first buys from B, but then merges with B, not only is the relationship between A and B changed but also A's relation to B's other customers, suppliers, competitors etc.. They point out that what might be gained in the A-B relationship might well be lost through the changes in the other relationships that B had before the merger.

The issue of trust of external buyers and sellers in their interaction with group companies was examined in Scenarios 22 and 23. Respondents were presented with a situation where their group had just acquired one of their customers (Scenario 22) or suppliers (Scenario 23) and were asked to comment how other customers and suppliers in the market might react. Responses were measured in Frames 40 and 41. Frame 40 measured trust from an external customer's perspective (Frame 40 - External customer mistrust. Mentions 123. Response 29/10). Frame 41 measured trust from an external supplier's position (Frame 41 - External supplier mistrust. Mentions 74. Response 27/7).

Results for the t-test in both frames were again significantly different from zero. Analysis of responses from Agrifood and other respondents indicates that there is evidence of mistrust of suppliers or customers that are in the same group as one of their competitors. The evidence is stronger in the case of external customers. (Mean scores for Frame 40: 1.3 and 0.9, Frame 41: 0.8 and 0.7. The Mann-Whitney test confirms no significant difference between both groups of respondents).

A number of respondents reported direct experience of external customers and suppliers being acquired into their group and recognised the difficulty this created in their relationships with other customer and suppliers. In some cases, relationships with external trading partners were immediately terminated.

"I remember it just happened overnight. And the next day 'Goodbye'. Not because we had done a bad job, just policy". (Respondent 11).

"There was no discussion, he got ten minutes and told 'No more business'. So certainly that is where a customer delisted us". (Respondent 12).

In other circumstances, business may be lost as a result of a gradual withdrawal of commitment from an external customer or supplier. This is likely to occur in circumstances where products or services provided by an internal company are user-specific or semi-unique, and the external company needs time to search for alternative sources.

'(Company X) *took the decision immediately after, although it took some months to actually move to a position where they could move the business away".* (Respondent 7).

"Sometimes you find that the customer will make a sort of gradual withdrawal". (Respondent 36).

A relationship may gradually terminate over time where the internal supplier continues to provide existing products or services but is denied the opportunity to participate in new product development or other commercially sensitive projects.

"Some will be very quiet about it and up front say 'OK we accept it won't make any difference'. But....over a period of two or three years you find you're not getting any new business. They don't actually take away your existing business, but they think twice about giving you new". (Respondent 1).

In certain cases, it was recognised that a corporate group may define official policies covering trade with suppliers in the same group as a competitor.

"I think (Company X) would probably have a policy not to buy from Tastetec anyway because they are part of the same group as Petco. Certainly I think a lot of companies do have that policy". (Respondent 29).

Respondents also reported similar examples where their companies were suppliers to a particular customer which was acquired by a competitor. The response in one reported case was to withdraw technical resource and commitment almost immediately.

"That created a great deal of conflict within the business, and I know it did because even now that conflict exists with that customer. People are not prepared to talk to them, supply them or give them technical support". (Respondent 6).

Whilst external suppliers and customers may be concerned about other relationships of their trading partners, we must recognise that termination of these relationships is not the inevitable outcome in all circumstances. A number of respondents reported instances where they were able to continue to develop business with external customers and suppliers even after their group had vertically integrated through the acquisition of one of the existing market players. Past demonstrations of trust and commitment, built up over the history of the relationship, were important factors in maintaining bonds between the actors in the changed circumstances Other respondents recognised that relationships can continue where an internal supplier or customer has a strong market position or where the level of rivalry in the industry is less intense. However even in these cases, relationships between actors undergo subtle changes particularly in the level of trust between them.

7.4.1 Concerns of external partners.

The issue of trust was frequently mentioned by respondents in this context. The reasons for external actors distrusting suppliers in the same group as their competitors fell into three areas.

Firstly, respondents recognised the risk that sensitive information can be passed back to an internal customer by a group supplier resulting in a rapid transfer of information to the group company. The relationship between group actors was perceived as one of 'insider trading'. External customers were concerned that their business potentially becomes 'more transparent' and 'visible' to one of their competitors. They recognise the risk that the group customer could have access to special or unique products or services which may have been exclusive to themselves. Even where there is no evidence to support the transfer of information to another group company, people may be concerned about the potential risk of it occurring at sometime in the future. In these circumstances they may perceive the commercial risk of dealing with the group supplier to be too great to justify future development of the relationship.

"It will always provide a cloud over the relationship you've got with customers who compete with what becomes a sister company". (Respondent 28).

Similar factors influence buyer seller relationships where internal users source products or services from internal and external suppliers. The latter may be suspicious that the group buyer passes information to the internal supplier particularly if this involves unique or unprotected technology.

"It would be a worry particularly if there's a big technical input coming in from the suppliers, so I think it would be a concern". (Respondent 18).

The concern of external actors that an internal buyer or seller can pass information to another group company has some justification in that a number of respondents claimed to do just that. One respondent admitted passing market pricing information to an internal supplier. Other respondents commented on the desirability of communicating information to assist sister companies within the group.

"They do trust you less and they'll naturally assume of course that you're giving market information back to your sister company, which you probably would". (Respondent 16).

The second issue of trust relates to the perception by external customers that an internal customer will automatically receive a favoured status from a group supplier. In this case, the internal customer is assumed to receive priority treatment in terms of, for example, being offered special prices or improved delivery terms. The internal supplier is assumed to satisfy the requirement of the internal customer as priority over those other customers. Again, even where there is no evidence of this happening, people are concerned about its potential to occur, casting doubt over the value of future interaction with the internal supplier.

"I think human nature would suggest that they would expect the Brit Chemicals subsidiary that is now a competitor of theirs would get a better deal". (Respondent 32).

"I think there might be an element where, yes of course, your other suppliers would trust you less. If your business had a record of, at the expense of everything, dealing within its own business, I think that would be". (Respondent 6).

Whilst the perception of external partners may be that internal companies receive priority status in satisfying their needs, evidence presented in Chapter 9 suggests that, in practice, the opposite is true. Internal companies are more likely to exploit the advantage of their group links by taking internal business for granted and therefore putting the needs of external trading partners above those of the internal. We explore this theme later in the thesis.

The third area of concern centres on the sensitivity of indirectly assisting a competitor by trading with another unit within that competitor's group. Interaction with an internal supplier may be viewed as increasing the economic value of the group as a whole which indirectly benefits other companies within the organisation. In this way, an external company may perceive that it is indirectly contributing to the prosperity of one of its competitors.

7.4.2 Implications of external partner mistrust

Because of the problem of inherent mistrust in these relationships it was recognised that an internal supplier may have to perform to a higher standard than other suppliers when servicing an external customer in terms of increased commitment. Consequently, a marginal level of performance is more likely to result in the delisting of a supplier. Similarly, a group supplier is particularly vulnerable where external buyers pursue supplier rationalisation programmes.

Internal sellers need to continually emphasise and reinforce confidentiality in their relationships with external customers, demonstrating the effectiveness of 'chinese walls' with other parts of their organisation. In the case of one internal supplier this entailed entering into legally binding confidentiality agreements.

".... we actually have quite complex confidentiality agreements so that the technical people in Bakery Supplies don't talk to Millpro people about what they've learnt about (Company X and Company Y)". (Respondent 17).

"... we have an elaborate system of codings, pools and keeping reports very confidential because if any information got out that could blow our whole contract out of the water". (Respondent 24).

".... it's important that integrity will be tested to the full in this sort of situation". (Respondent 28).

In the absence of a history of previous interaction that demonstrate integrity and responsibility, the formation of new trading relationships with external partners is likely to be difficult. On the other hand, where there is a continuing relationship, internal companies are more likely to be targeted by their competitors in situations where they interact with internal and external partners. Competitor tactics typically focus on undermining external relationships by casting doubt and uncertainty over the integrity and trust worthiness of the internal supplier.

"I've actually used that with external businesses very successfully and I've said to people like Company X.... 'You don't give them (a competitor company) *any business and they'll stop calling, because what they're doing, they are bound to pick up information about your business, passing it back and their* (factories) *will respond accordingly to it'".* (Respondent 22).

"Of course competitors will exploit that. That's really the gist. The competition will really go at you because they will see a chink in your armour". (Respondent 28).

Companies are likely to be most vulnerable at the time when a customer or supplier is acquired into the group and the intragroup linkage is formed. Respondents with experience of these events recognised that significant attention needs to be given to all relationships at the point of take-over. This necessitates the need to communicate the rationale for the action and provide reassurance about confidentiality and continuity (assuming the internal party desires to continue relationships with external trading partners). The situation is regarded as particularly destabilising, requiring sensitive management by the internal company if it wishes to continue relationships into the future and avoid a 'knee jerk' reaction by existing trading partners.

"If you think about it, it's the change of ownership of companies that probably causes more stress than any market situation. The knock on effect at all levels, customers and suppliers, can be very dramatic". (Respondent 24).

7.4.3 Summary

Relationships between internal actors will indirectly condition their relationships with other actors external to the group. The latter may consider the commercial risk of interacting with an associate company of one of their competitors as unacceptable and seek to exit the relationship either immediately or over a period of time. In circumstances where relationships continue to develop, the issue of trust becomes more significant. Internal companies may need to demonstrate increased commitment to an external partner, to compensate for declining levels of trust, and go to greater lengths to prove confidentiality and integrity. Competitors are likely to pick up on these issues and seek to undermine the position of an internal actor who is most vulnerable at the time the intragroup linkage is formed. We can see therefore that one of the features of these relationships is their potential vulnerability to changing circumstances and events.

The consequences of this are that group actors may feel disadvantaged by belonging to the same corporate group as potential suppliers or customers. Group sellers may perceive that having an internal customer in their group distances them from other customers and represents a potential barrier to their market place, effectively inhibiting their development. This can be exacerbated if the group customer has a relatively small share of the market, or is in a weak position vis a vis its competitors. The situation may lead to resentment, especially if the history of interaction between the group companies has been adversarial and characterised by conflict.

Group buyers may feel similar concerns about the commitment of external suppliers, and may perceive themselves isolated from superior technology of these suppliers. Again, resentment can arise when the internal supplier is inferior to other suppliers in the market place, or seems to favour companies external to the group.

Corporate strategists considering upstream or downstream integration must be aware of the effects this can have on the portfolio of relationships of existing and potential group companies. The benefits of acquisition usually focus on the synergies generated by the merger of two focal actors within a group. This study highlights the need to balance this against the potential destruction of other relationships, and the financial losses that can result.

"We have seriously considered not making acquisitions because of the impact it would make on other trading relationships, so it's definitely an important issue". (Respondent 17)

7.5 Conclusions

This chapter has been concerned with the influence of actors outside the basic intragroup triad that are either internal or external to the group. Analysis has centred on assessing the validity of the main elements contained in proposition P3.

We have investigated the various parts of the proposition through analysis of six of the content frames. We have seen from evidence presented by the groups featured in this study that where an actor develops relationships with a number of internal group companies, each relationship will be conditioned to some extent by the interaction between these companies. We have seen that whilst there is inconclusive evidence that group buyers formally or informally exchange information on the pricing strategies of their suppliers (Frame 37), there is stronger evidence to suggest that buyers discuss the performance standards of their suppliers and may use that information to influence their behaviour (Frame 38). Similarly group suppliers may exchange information on internal or external customers.

We have also demonstrated how relationships between operating actors can be influenced by their interaction with alternative buyers and sellers. (Frames 42 and 43). Sensitivities can arise in intragroup relationships where internal companies interact with actors outside of the group that are competitors to companies inside. This may heighten mistrust and conflict between internal actors, particularly where group companies are perceived to have stronger relationships, or give favoured status to external trading partners.

Finally, we have seen that relationships between internal actors will indirectly condition their relationships with other actors external to the group. We have examined in Frames 40 and 41 evidence that external customers and suppliers are less likely to trust trading partners in the same group as one of their competitors. They may regard the group actor as an associate of a direct competitor and be reticent to develop close relationships, recognising the potential for information leakage. In extreme cases, this may motivate an external partner to suddenly or gradually terminate a relationship.

These factors individually, or in combination, add additional dimensions of complexity and uncertainty in managing relationships with internal and external partners. They increase the number of factors that must be considered in strategic and day-to-day decision making. They heighten the potential for mistrust to develop between the parties increasing the fragility and vulnerability of these relationships. They may also be the cause of stresses and conflicts between actors that need to be continuously managed within the context of their relationships.

Our analysis reinforces the notion that hierarchical factors associated with ownership cannot be considered in isolation of network influences and visa versa. Interaction between the two systems shape the perceptions of risk and trust that actors have about each other. Hierarchical factors can constrain freedom and choice associated with networks, even where interaction between group companies is minimal. A corporate centre that grants its operating companies complete 'network freedom' must recognise that in practice, who these companies are associated with influences the perceptions of other trading partners that limit opportunities in networks. The network options of a group company maybe limited simply because of its direct or indirect association with other companies within the group.

Chapter 8

Information flow between actors in intragroup relationships

Introduction

In the previous chapter, we saw that a group company maybe especially concerned about the transfer of information to one of its competitors via an internal trading partner. We also highlighted that an external company may also be concerned about the flow of information in the opposite direction. This chapter explores information exchange between operating actors within the intragroup triad itself. By taking the group in its totality as our unit of analysis, the chapter seeks to identify factors in the group environment which are responsible for enhancing or reducing the level of information exchange between operating actors. It explores the validity of the fourth proposition (P4) which introduces the notion of distance between group actors and proposes that:

The group context is likely to increase the level of information that each party has about the other and the breadth of interaction between them. This is likely to affect the perception of each other's position.

In section 8.1, we introduce the concept of distance in business relationships and highlight that social and cultural dimensions of distance are important in influencing the amount of information passed between group actors.

In section 8.2, we examine the influence of the group's culture and recognise that whilst information is continuously circulating around the group, the level of the flow is not fixed and will be affected by the attitudes and values of operating actors. We will see that the amount of information flow will depend on the expectations of the centre which will influenced by its attitudes towards intragroup trading. Operating actors may face dilemmas of how much information to pass to other actors and how much to conceal from other organisational members.

In section 8.3, we explore how the environment of the group affects the social distance between actors and highlight how factors such as group forums, networks and grapevines can influence the flow of information between them.

In section 8.4, we measure the effects of the information flow to see if it translates into actors having greater knowledge and awareness of each other and whether they are able to use this in their relationships.

The overall aim of this chapter is to highlight how group environmental factors can have a bearing on the relationships between actors. We are particularly interested to examine how people think about information within the group and how their attitudes influence the flow of information between them.

8.1. Distance between actors in business relationships

Information transfer lies at the heart of all exchange processes in business relationships. Collection of information is one of the primary uncertainty reduction activities that firms adopt in their interaction with others. (Easton 1992). In this respect, information is a 'common currency' of inter-firm relations which other exchange processes operate through. Information exchange is therefore a prerequisite for co-operation.

Distance between buyers and sellers represents the sum of factors that prevent the flow of information between them (Ford & Rossen 1982). The concept of distance was used by Ford (1980) to explain the process of how companies develop relationships over a period of time, identifying various stages of relationship development. These stages accompany a sequential reduction in distance as actors gradually form more stable bonds and closer relationships. Ford notes that the distance perceived to exist between buyer and seller has several aspects:

Social distance: the extent to which both the individuals and organisations in the relationship are unfamiliar with each others' way of working.

Cultural distance: the degree to which the norms, values or working methods between two companies differ because of their separate national characteristics.

Technological distance: the differences between the two companies' product and process technologies.

Time distance: the time which must elapse between establishing contact or placing an order, and the actual transfer of the product or service involved.

Geographical distance: the physical distance between the two companies' locations.

Ford's analysis focuses on dyadic interaction between buyers and sellers in a network context and would apply to intragroup buyers and sellers in terms of their horizontal relationships, taken from a network perspective. In the intragroup situation however, additional factors affect the distance between intragroup actors which are independent of network influences but are important in mediating their behaviour. These additional factors are closely related to those identified by Ford, and primarily concern two aspects associated with group membership:

Social distance: the extent to which both the individuals and organisations in relationships are familiar with each other through membership of the group and having a common parent.

Cultural distance: the degree to which the norms and values or working methods between the actors are influenced by the existence of a group culture.

We now explore the concept of cultural distance between group actors, and identify how it affects the development of their relationships and particularly the flow of information between them.

8.2. Cultural distance between actors

8.2.1 Culture and shared values

Culture in its widest sense typically refers to the pattern of development reflected in a organisation's system of knowledge, ideology, values, laws and day-to-day rituals. (Morgan 1986). The notion of 'corporate culture' increasingly recognises that organisations are 'mini societies' that have their own distinct pattern of values and norms, built up and fashioned over time. Thus an organisation may aspire to be, or have developed into, a close-knit team that believes in co-operation and working together. Another may be highly fragmented, divided into groups and shaped by an ethic of competitive individualism. The characteristics of culture gradually come evident from observations of patterns of interaction between individuals, the language used and the values espoused in daily routines and conversation. Behind these factors, there are usually historical explanations why things are done.

All group actors work within an environment. Part of this environment encompasses that of the total organisation or group. This imposes certain conditions or constraints on the way actors operate. Every organisation has norms about ways of working, style of meeting, methods of reporting and co-ordinating (Handy 1985). It is not always possible for a group or set of actors to avoid conforming to these norms whether or not they are the most appropriate in their circumstances.

Ford (1992) recognises that one of the aspects of information exchange is that of its formality. The degree of formality may depend on an organisation's characteristics (its culture) which can affect the nature of its interaction processes with other actors. The development of shared norms and values are important in guiding the behaviour of actors in dyadic relationships. Hakansson & Snehota (1989) note that in certain circumstances, reactive behaviour can only be guided by norms and values based on past experience, in the form of organisational routines. Similarly at the network level there may exist some shared beliefs about activities and resources (Hakansson & Snehota 1994).

8.2.2 Group values and information exchange

The exchange of information between actors in intragroup relationships will depend on the extent to which they share a common ideology about the benefits of information exchange to themselves and the group as a whole.

We identified in Chapter 6 that one of the prerequisites for the development of effective rules governing group relationships is for the actors involved to accept and adhere to certain norms and values that underlie these rules. We saw that co-operation may be considered as something that actors perceive as a value (something desirable), as well as a constituent part of the process of interaction. The welfare of the group as a totality was also recognised as an underlying ideology accompanying exchange processes within corporate groups.

In a similar way, the level of information exchange in intragroup relationships will be influenced by a centre's perception of the value of that exchange to the group as a whole. A group headquarters/centre may operate a deliberate and systematic policy to shape the values of its operating companies to enhance the flow of information between them. Its rationale for doing this is that it may see information transfer as a way for operating companies, through their relationships, to learn from each other and spread best practices across the group. A corporate centre may regard information exchange between actors as a means of achieving synergies that strengthen the group as a whole.

In Scenario 15, respondents were asked to comment on a situation that: **'As part of a policy to encourage internal co-operation, the centre has formed a number of working parties to identify areas of best practice within the group, share ideas and compare buying prices'.** Frame 26 was set up to explore whether respondents perceived that the policies of their groups promoted the sharing of information between actors and whether corporate centres took an active role in facilitating the process of information transfer. (Frame 26. Information sharing encouragement. Mentions 63. Response 28/9). Analysis of responses from Agrifood and other respondents strongly suggest that corporate centres take a high profile role in encouraging information exchange between all parts of their groups. Results from the one sample t-test were significantly different from zero. (Mean scores: Agrifood respondents 1.7, other respondent 1.8). No significant difference was recorded between groups.

A number of respondents mentioned that their organisations were actively involved in promoting bench marking exercises between group actors to identify and spread best practices between them.

"... look for synergies, look for opportunities to share best practice and bench marking is one of the themes of the day". Respondent 31.

In the case of Agrifood, corporate philosophy was expressed in a policy that favoured and encouraged interaction between its operating units. To support this, a number of 'value statements' were developed and publicised by the corporate centre. These value statements were widely communicated to managers across the organisation using media such as management bulletins (entitled 'Agrifood Values'), video and management briefings & workshops. The 'cross fertilisation of skills across the group' was one of Agrifood's stated 'core values'. Information exchange between operating actors was regarded in Agrifood as an important mechanism for transferring knowledge across the group, to the benefit of the organisation as a whole.

8.2.3 Information exchange and openness

Whilst the exchange of information between internal actors may be regarded as a desired attribute of their relationships, the rate of exchange of information will depend on how open they are with each other. Respondents regularly referred to 'openness' in their relationships with other members of the group. Openness was described by respondents in terms of a number of attributes.

Some equated openness with honesty in that internal companies should be truthful in their day to day interactions with each other.

"...the buyer's in a slight difficulty, because he would not be expected internally to tell out right lies. He shouldn't do". Respondent 22.

Honesty was also defined in terms of refraining from knowingly concealing information from another group company, or withholding information that was recognised to be in a sister company's interest.

Openness was equated with the visibility and transparency of information. Some respondents used the analogy of an 'open book' to describe their relationships with other parties suggesting actors should have an unrestricted access to information across the group, including that of their trading partners.

"To me, the whole benefit of intergroup trading is to make sure that everybody has full cost visibility". Respondent 29

Finally, openness was described in terms an attitude or mind set of the actors. A number of respondents equated openness as part of the culture of their organisation.

"I think we are trying hard to promote a culture of openness". Respondent 18.

The issue of openness was further developed in Frame 68 which was set up to measure respondent's attitudes towards the desirability of openness in intragroup relationships. (Openness - desired. Mentions 69. Response 20/6). The t-test indicates that whilst 65% of interviewees recorded responses in this frame, there was strong support for the view that sister companies should develop open relationships with intragroup partners, and that openness was perceived to enhance the relationship between group actors. Overall scores were significantly different from zero, whilst similar responses were recorded for Agrifood and other respondents (Mean scores: 1.4 and 1.8 respectively. No significant differences recorded between groups).

"... we have to create within the group an atmosphere of honesty and openness. I know it is easy to say that but in fact it is very important to the success of the business". Respondent 4.

"There just has to be as much of an openness about the relationship as possible". Respondent 20.

".... it would do our relationship a great deal of good if we were more open about it". Respondent 29.

The level of support demonstrated for desired openness in intragroup relationships by respondents along with strong evidence that corporate groups surveyed in this study, value information exchange between their operating companies, indicates a propensity for the group environment to enhance the information flow between operating actors in intragroup relationships and increase the level of information exchange between them. However when actors discussed the openness of their relationships in reality, a different picture is portrayed. (Frame 27 Openness - Actual. Mentions 158. Response 29/10).

Whilst the overall scores in the one sample t-test were significantly different from zero, the Mann-Whitney test indicated a significant difference between the responses of Agrifood interviewees and those from the other organisations. (Mean scores for Agrifood -0.6, other respondents 0.9). Non Agrifood respondents generally regarded their organisations as open as defined by the attributes of openness listed earlier. Examples of positive statements included:

"There isn't much hiding that I think's going on now". Respondent 34.

"We operate very much within European guidelines and the sharing of information". Respondent 38.

"You're talking about information in Branded Foods. In fact all information is totally transparent..... It follows the culture that we all have learned to live with and comply with, so I think that no information is hidden. I don't believe that to be the case at all". Respondent 39

Agrifood respondents, in contrast, were generally negative towards openness highlighting a reticence across the group to develop 'open and frank' dialogues between sister companies

".. each company is still trying to maintain a degree of autonomy and secrecy from their sister". Respondent 1.

"... at times......we might well be part of a different group". Respondent 2.

" there does seem to be a big reluctance in opening up internally". Respondent 13.

"My experience is that in the Agrifood culture there isn't a great deal of openness between companies. Sister companies within the Agrifood Group and even within (X Division)". Respondent 17.

Analysis of Agrifood responses indicates a significant reluctance amongst group actors to be open with sister companies simply because they did not perceive that openness to be in their interest. For some respondents, the desire for openness was regarded as jeopardising a negotiating position with another group actor.

Some respondents mentioned a reticence to be open in terms of diminishing the value of information power. They perceived that unique knowledge gave them power in the group environment and disclosure of that knowledge to an intragroup trading partner, or to the centre would weaken their position within the group even to the extent of threatening their status as an independent unit. Actors were particularly sensitive to disclosing information that could facilitate the integration of activities between group companies.

"I can well understand that this is an issue that people are reticent about disclosing knowledge to others and it's one of the major problems I think we have as a group is to try and get people to share knowledge and information, whereas everybody recognises that knowledge is a power base in a way and supports them and gives them their uniqueness to the group which they will try and protect or to make sure they keep their job, so there is a problem here. We (the centre) *on the other hand would endeavour all the time to try and break that reticence down on the grounds that if there's knowledge in the group, the wider it can be shared the better".* Respondent 19.

This last quote demonstrates the dilemma that can confront operating companies in managing information exchange with other group actors. On the one hand they may experience pressure from the centre to be open in the context of the group environment to enhance the information flow and transfer knowledge that is perceived to be to the value of the group overall. At the same time, they may perceive that the disclosure of such knowledge is not be in their interest and may therefore seek to retain its confidentiality by concealing its existence from other actors, an observation acknowledged by a number of Agrifood respondents.

"...everybody gives the impression that they have something to hide". Respondent 11.

Our analysis indicates that openness is not a universal trait in all intragroup relationships, indicating that in some circumstances the information flow between sister companies may not be heightened by the group environment. We have seen that this can occur even in circumstances where a centre values the transfer of information between its business units and where people involved in the relationship believe it to be a desirable attribute. It was evident from further analysis of Agrifood responses that previous group philosophies and mandates relating to intragroup trading were continuing to have a profound impact on the behaviour of actors despite a change in strategy some years ago.

8.2.5 The impact of previous policies and values

The traditional philosophy of Agrifood for much of its history contrasted significantly with its current internal trading strategy. Co-operation and openness between businesses was never actively encouraged by the corporate centre and at times had been intentionally discouraged. Organisational culture was characterised as results-oriented and individually focused. In some relationships this led to rivalry and competition between companies and individuals (discussed more fully in Chapter 9) and a reticence by some to form closer relationships with other members of the group. Operating actors tended to develop intragroup relationships only if they perceived them to be in their wider interests. The group environment was described by a number of respondents as 'working in silos' depicting the notion of being very compartmentalised and isolated. Communication between divisions was rare. Individual operating companies developed their own value systems and ways of working, expressed by one respondent as 'cultures within cultures'. The only unifying philosophy was 'the bottom line'. Hence in the Agrifood environment, many managers that had developed a set of expectations associated with a certain trading philosophy and set of values were being asked to adapt to another. This process that was proving slow, and for some, frustratingly difficult to implement.

The Agrifood case illustrates that under certain conditions intragroup trading strategies may support a neutral or negative stance towards openness in intragroup relationships. It would also suggest that over a period of time, group policies and philosophies gradually translate themselves into a set of values which become inculcated into the value systems of individual actors. These value systems provide an important component of the atmosphere in which intragroup relationships develop. They may be responsible for reducing the cultural distance between group companies by instilling, for example, the attributes of openness within internal relationships that enhances co-operation between actors.. They may equally be responsible for increasing cultural distance between actors by fixing alternative systems that support other priorities. Therefore, if group policies and mandates are to be effective they must translate themselves into the value sets of internal buyers and sellers and become institutionalised in the relationships in the day-to-day routines of interaction. Openness may not be a 'natural state' or something that develops because the centre desires or orders it to happen. However, once these value sets become embedded in the personalities of the actors they act as a 'normative glue' (Morgan 1986) which gives additional bonding to intragroup relationships, making subsequent change difficult to enact in terms of new policies and corporate philosophies. Organisations seeking to radically change their intragroup trading strategies should be aware of the challenge this poses.

To explore this area further respondents were presented with a change situation in Scenario 2 which described a predicament similar to the one facing Agrifood. **'Suppose**

your group has a history of favouring independence of its operating companies and has refrained from setting rules and policies on intercompany trading. However there is now a change in direction and strategy, and the group is placing more emphasis on co-operation between sister companies. You wonder how people will react to the new situation'. Frame 9 was developed to ascertain respondents' views of the difficulty of implementing new philosophies and changing the attitudes and expectations of actors in intragroup relationships.

Scores from the one sample t-test were significantly different from zero, demonstrating strong agreement between both groups of respondents that such changes are difficult and slow to implement, as the following examples illustrate:

"To suddenly take a group of managers who for the last ten or fifteen years have been operating in a completely isolated environment, they weren't encouraged to talk to others within the group, indeed if anything they were discouraged to talk to other people within the group. To suddenly say 'Right guys let's all get together and meet once a quarter' which is what we do 'and we're going to turn the world on its head' it doesn't work like that and we have found as a group that we've been struggling really - we all buy into it, we think it's a great idea - but we've been struggling to really find the key that will unlock the holy grail we've actually called it". Respondent 5

"I think it's incredibly difficult for people to change over night. In fact I don't think they can. I think if you've come through a business culture that says we will act independently wherever we can, to then be told or to be suggested that you work more closely with other people I think is again a desire that is unlikely to work in the short term. And by the short term I mean I can't see it working in less than a five year change period. It is very difficult to change that culture". Respondent 11.

The need for strong leadership and commitment from the centre was an undercurrent theme expressed strongly by a number of respondents suggesting an organisation embarking on such a change needs significant resolve and dedication.

"...until they see real leadership, that the group is serious about it, until then nothing will happen. It will just go on as it is". Respondent 3.

For some, the only way of achieving lasting change in this situation was to bring in new people, with mind sets that aligned more closely to the new values, to manage relationships between group operating companies.

"....maybe the only way of doing this is bringing in certain personnel and the only way you will overcome the fiefdoms of a previous culture and if you want to change that culture, you have to change the people, particularly when they are not playing the game". Respondent 9.

These observations of change have significant implications for the management of intragroup relationships, including the development of openness between actors. The relationships between buying and selling firms are dynamic and are affected by the individual episodes which take place between them (Ford 1982). The present is conditioned by the past. Stability derives from the length of the relationship, its routinisation and expectations which become held by both parties. New policies and values on intragroup trading put forward by the centre will require changes in the expectations and routines of actors that will have incrementally developed over numerous years. Evidence from respondents suggest that actors are likely to experience difficulty in breaking free from these routines and aligning to the expectations associated with a new internal trading philosophy. Strong leaderships, patience and commitment will be required by the centre to achieve such a change. Where attitudes and values are strongly embedded, changing and replacing people with more sympathetic mind sets to the new philosophies may be the only change mechanism available to achieve this.

8.2.6 Summary

The level of information flow in intragroup relationships is influenced by the value systems of each actor in the intragroup triad. The centre's attitude to information exchange between actors will be conditioned by its policies on intragroup trading. It is likely to adopt a positive stance towards an enhanced information flow between actors where its principle objective is achieving synergy between its business units. It may therefore seek to shape the values of individual operating actors accordingly. When the centre values autonomy and accountability it may adopt a neutral or negative stance which may decrease or retard the flow of information between actors.

Operating actors may face difficult dilemmas in terms of managing information exchange in intragroup relationships. On the one hand they will be influenced by the values of the centre which may favour the exchange of information between the parties in the wider interests of the group. But operating actors will also value information in terms of advancing their own positions and may be reticent to impart information to other group companies where they do not regard it in their individual interests, even if they perceive the information to be to the benefit of the group as a whole.

Operating actors may therefore seek to hide or conceal information from each other. The problems they have in doing this relate to the factors in the group environment that tend to increase the visibility of the actors to each other by reducing the social distance between them. The level of information exchange in intragroup relationships must also be considered in terms of the social distance between the actors involved.

8.3. Social distance

Social distance was defined earlier as 'the extent to which both the individuals and organisations in relationships are familiar with each other through membership of the group and having a common parent'.

Social distance in dyadic relationships is reduced through the process of interaction. Overtime, contact patterns develop between actors to achieve an effective matching and adaptation of the systems and procedures of both supplier and customer (Ford 1980). This may involve several functional areas and be accompanied by the formation of strong personal relationships between individuals in the two companies.

Social distance in intragroup relationships will also be affected by factors that arise from group membership which increase the intensity and frequency of interaction between actors and therefore increases the knowledge operating actors have about each other. The factors responsible for increasing the level of interaction inside a group include:

- Group forums and gatherings.
- The mobility of managers within the group.
- Informal information networks and grapevines.

8.3.1 Group forums and gatherings

Social distance between group actors is influenced by the opportunity they have to meet socially within the group. In order to enhance the information flow between actors, the centre may set up gatherings or formal meetings that physically and socially bring actors together. In this way, physical proximity increases interaction amongst actors whilst shared facilities does much to enhance group identity. In Agrifood, the centre actively facilitated and encouraged operating actors to regularly meet to exchange information and share knowledge and experience, through the formation of group committees focused on common activities and functions across operating companies. Examples included meetings of a group purchasing committee, a group manufacturing forum and a group distribution forum, where personnel from individual operating companies were brought together in 'common interest groups' and encouraged to identify and share best practice and exploit potential group economies of scale. Examples of similar committees and forums were evident in other groups. For Agrifood, these committees had a symbolic relevance signalling the importance the centre attached to internal co-operation and information exchange to the benefit of the group as a whole.

"We've got the operations forum, we've got the research forum......... We've got the purchasing committee. I'm going to do the distribution forum which is pretty well developed. Comparing buying prices is mainly down to one forum, but best practice and sharing of ideas, targeting areas of core competence and improvement certainly is in the brief for all the others. That's fine. I think it's a very strong signal to the participants in the group that this is an important area". Respondent 20.

The centre may also stimulate the information flow between managers in the group by bringing them together in settings such as management training and development programmes. Respondents recognised such programmes as common events in their organisations. In these settings, managers may be encouraged to exchange information about their businesses as part of education programmes using case studies and internal group examples. In certain circumstances, this may require managers imparting information they regard as sensitive to their business, again highlighting the predicament managers confront in managing information flows with other group members.

"I'm on the London Business School course. We do make presentations and we do relate it to our current experience of our own businesses and therefore we do talk about strengths and weaknesses of our businesses. My experience to date is that we have been very open about it. All of us". Respondent 6.

Some respondents highlighted the difficulty of reconciling the need to be open with the need to protect what they perceived to be the interests of individual businesses. Respondents were particularly sensitive to the image and reputation of their business units within the group and highlighted a reticence to disclose information that they perceived as disadvantaging their business in front of other group actors.

"I have been in analogous situations on the technical side, when we used to hold group technical meetings, and it is difficult to know how much of your own business you should put forward in front of the rest of the companies". Respondent 15.

This highlights an important relationship between social and cultural distance in intragroup relationships. A reduction in social distance can increase the level of information exchange between actors where cultural distance between them is simultaneously reduced. Thus putting in close proximity group actors that desire openness in their day-to-day interaction, is likely to enhance that openness and raise the level of information exchange between them. But where there is a diversity in values between actors or where there is reticence to develop open relationships, a reduction in social distance is unlikely to be effective in increasing the information flow between them. A reduction in social distance does not automatically translate in an increase in the level of information exchanged between actors.

8.3.2 Mobility of managers

The level of information exchange between group actors is influenced by the frequency that personnel transfer between different divisions and operating companies. The centre may again take an active role in facilitating this process in the form of group personnel and HR policies. Historically, the transfer of managers between companies and divisions in Agrifood was limited. More recently however, the policy of the centre has been to encourage the movement of managers as a vehicle for transferring knowledge and skills and enhancing openness between business units. The mobility of people is therefore another factor that can reduce social distance between actors.

"I am very much in favour of people moving within different parts of the group because that is the most effective way of transferring know how and technology within a group like Agrifood, people moving from England to France to Italy what ever, and actually across the group from different divisions. It is a very effective way of moving skills and knowledge through out the group". Respondent 4.

In Scenario 17, respondents were asked to comment on a situation that: **'A senior manager in your company is promoted to a position in a sister company with which you have a trading relationship. You are considering whether this is a good or bad thing'.** Frame 30 measured respondent views whether it was desirable for people to move between operating companies in terms of enhancing relationships between them. (Frame 30. People transfer - desired. Mentions 37. Response 19/7).

Of the respondents expressing an opinion, there was almost universal agreement around the desirability of managers moving between operating actors as a means of facilitating and strengthening relationships through the development of personal bonds and friendships. (Mean scores for Agrifood 1.8, other respondents 1.9. One sample t-test significantly different from zero). These managers were seen as being able to exploit their knowledge of both operating units to bring them closer together by, for example, facilitating introductions between people and helping them to understand each others' positions. The description of 'ambassador' was used to describe the position of the transferee by one respondent.

"From my personal point of view, I clearly saw it was a good move and I am very keen that suppliers and customers understand each others' businesses, and so for me as a customer to move into Tastetec as a supplier to Petco, I saw that as a very positive thing". Respondent 5.

Whilst the mobility of people was generally perceived as positive in the group context, some respondents highlighted experiences where the movement of a particular individual between companies was generally detrimental to the relationship between them. This was particularly evident where that individual divulged sensitive information to the disadvantage of the previous employer. Examples of sensitive information quoted by respondents in this context included the exposure of: weaknesses in operating procedures, failures to follow group mandates or policies (for example by favouring an external rather than an internal partner) and information on cost levels and profitability. The personality of individual managers along with their relationships with previous group employers were regarded as important influences as the way individuals responded to the situation.

"Going back to one of the early scenarios you said about people hiding things. Inevitably things are hidden and therefore you're a poacher turned gamekeeper, or a gamekeeper turned poacher and I've seen the results of that on both sides and sometimes the company can be turned against the sister company through a one sided comment being made by the person who is actually transferring". Respondent 11.

The analysis highlights the issue that in some areas, operating actors may have little control over the information flow with their sister companies despite their desires to withhold certain information. The factor that is also significant in the influence of group grapevines and networks.

8.3.3 Informal networks and grapevines

Information and knowledge are transferred within an organisation through informal networks and grapevines which may prove powerful communication channels. A number of respondents commented that informal networks were formed amongst people from different operating companies during group development programmes which continued to function after these had officially terminated. Again the formation of personal bonds and friendships was cited as an important outcome of such events.

"The feedback I get was one of the best advantages of these LBS (London Business School) schemes is that the relationships you set up with other people within the group and you are never quite sure where they're going to come in useful. But people who've been on these courses tell me that one of the best things they remember getting out of it is knowing other people around the group and knowing where to go when you want to find something out and being able to pick up the phone and speak to someone personally". Respondent 19.

Respondent 17 commenting about Euro Industry's graduate development programme noted that the Group consciously moved new graduates in the early stages of their careers that would entail three of four transfers in the first few years.

"By the time you've got to your early thirties you've been through enough Euro Industry courses and you've worked in enough companies that you know somebody almost everywhere". Respondent 17.

The existence of group grapevines was acknowledged by most interviewees. In Scenario 45, respondents were told that **'Being in the same group, you are always picking up information on the grapevine about sister companies'.** Analysis of Frame 28, (Informal information networks. Mentions 72. Response 27/10), indicates that although informal information systems are more predominant and influential in Agrifood than in other organisations, both groups acknowledge them as significant information sources within the general environment of the group. Scores from the one sample t-test were significantly different from zero for Frame 28.

Grapevine information was variously described as 'gossip', 'tittle tattle', 'idle chit chat', 'rumour' and 'speculation' and was regarded as an inevitable consequence of large organisations.

"It is true that you are always picking up information on the grapevine about sister companies". Respondent 4.

"You pick up a lot more information about your sister company than you do about external companies". Respondent 40.

Many respondents recognised the potential power of the grapevine for disseminating information across the organisation and regarded it as supplementary to other forms of communication. Some admitted using the grapevine to transmit specific messages to other parts of the group. It was also recognised that the grapevine had the potential to become the dominant mode of intragroup communication if other forms were ineffective; for example where there is a low level of openness between sister companies.

"It's a wonderful way of getting news, a way of disseminating information as well. And I think on balance if you are gaining more information than you give you feel you've made a profit on the deal. It's no different if you are in a comfortable family set up that you hear about other members of the family. It can be good and bad news and I think there is no faster method of getting information". Respondent 11.

It was also recognised by many that the grapevine was particularly effective in transmitting negative rather than positive news, confirming the adage that 'bad news travels quickly', and highlighting the 'immediacy' of informal communication. A number of respondents quoted examples where an individual operating company had particular trading difficulties, which quickly became well known through out the group.

"All the time, every day, every hour. It's usually the bad stuff that flies". Respondent 37.

8.3.4 Social distance in groups and networks

A number of group-related factors have been identified in previous sections that influence the social distance between actors. Similar factors are also influential in reducing distance between actors at an industry level. For example, external buyers and sellers may meet socially in industry forums such as trade conferences and trade associations. Managers may move between buyers and sellers outside of a group and be regarded as valuable information sources. Markets with grapevines and other informal communication networks are well developed in many industries. A number of respondents recognised this and made comparisons between their internal and external relationships in this respect.

"There are grapevines in all industries and they'll talk about sister companies as well as external companies". Respondent 19.

However, when describing their relationships with other companies within the group, it was generally acknowledged that these factors were more pronounced and more influential in the group context. In comparison to the general industry environment in which companies develop external buyer seller relationships, respondents generally regarded the internal environment of the group as being 'more transparent', 'easier to spy in' and 'harder to hide in' whilst having 'greater visibility' suggesting that the information flow between companies in the same group is generally heightened when compared to the information flow that develops in relationships enacted with companies external to the group.

"The problem is that within a group, because you are within a family, it's a bit like saying 'Why don't you get on with Fred and I'm telling the rest of the family straight away'. News travels much faster. It gets amplified much more which means that once these relationships start to get ropy they slide very quickly. That also happens in the real world outside of the group. But the communication flows much slower. Much less gossiping'. Respondent 26.

8.4. Social and cultural distance and the group environment

We have identified that the dual concepts of social and cultural distance provide useful analytical tools to describe various characteristics of a group environment and its affect on the information flow between actors. Both cultural and social distance can be measured in terms of how 'close' actors are to each other. Thus actors can be considered 'culturally close' when they share similar values and ideologies that promote trading in the group environment. Similarly, actors are considered 'distant' when they identify with diverse values and philosophies. These concepts are combined in Fig 8.1, and provide us with a description of four possible group environments in terms of the enhancement or otherwise of information flow between actors.

Fig 8.1

Cultural distance

Social distance		Close	Distant
	Close	1	2
	Distant	3	4

In organisations described by cell 1, cultural and social distance between actors is close. Therefore the environment of the group is likely to enhance the flow of information between the parties leading to closer co-operation between them.

In cell 3, cultural distance between the parties is close however social interaction within the group is at a relatively low level. If a corporate centre wishes to increase the flow of information between the parties it should seek to reduce physical distance between actors and seek to enhance contacts between individuals as described in the previous section.

In cell 2, there is a high level of social interaction between actors, however their cultural distance is high due to differing values and expectations. In order to enhance information flow within the group, a corporate centre needs to change the perception and beliefs of individual actors around the benefits of information sharing and openness.

Finally, in cell 4, social and cultural distance between actors is relatively wide. In these circumstances, the group environment is unlikely to be conducive to the flow of information between actors, effectively discouraging and inhibiting co-operation between them. A corporate centre wishing to enhance information transfer between internal companies is likely to encounter major obstacles and exchange barriers. It will need to demonstrate significant commitment and resolve in bringing actors socially and culturally together for the benefit of the group as a whole. Experience in Agrifood indicates that this can be a slow and often time consuming process.

8.5. Information flow and knowledge

Analysis presented in the previous sections has demonstrated that the nature of the group environment may, under certain circumstances, increase the intensity and frequency of interaction amongst intragroup actors either formally (in group forums) or informally (through interpersonal networks and grapevines). The outcome is likely to lead to an increased information flow between actors, although the level of this flow will be limited by the cultural and social distance between them.

The potential consequence of an increased information flow will be that intragroup companies should be more knowledgeable about each others' businesses. To evaluate this further, interviews were analysed and coded for statements where respondents believed they had more information and knowledge about a sister company, in comparison with relationships with companies external to the group. (Frame 77. Knowledge actual. Mentions 83. Response 25/9). Whilst the overall scores of the t-test were significantly different from zero, analysis of Frame 77 indicates a significant difference in the perceptions of Agrifood and other respondents, measured by the Mann-Whitney test. Whilst mean scores for both groups were high (Agrifood 1.4, Other 1.9), respondents from other organisations seemed particularly knowledgeable about other actors in their group. This is consistent with results recorded in Frame 27 (featured earlier in this chapter) where non Agrifood respondents indicated a higher level of openness in their organisations in comparison to Agrifood. However the overall analysis, does suggest that group companies are generally more knowledgeable about sister companies than they are about other trading partners outside of the group.

"You know more about a supplier who's an intercompany supplier than you do with an external supplier....... Wouldn't it be awful if you were an external supplier to somebody and that customer of yours knew as much as they did as if you were an internal supplier". Respondent 6.

"....sister companies having a more intimate knowledge of each other". Respondent 21.

"We have access to a massive amount of information about each other". Respondent 34.

Respondents seemed particularly aware of each others' trading positions and financial performances.

"In general you know who is doing well and who is doing badly". Respondent 4.

"If you take someone like Coverco, we are in the same group together, so I know how they are performing so if they were supplying me in reverse they would know how I would be performing". Respondent 10.

Whilst much of the additional information flow represents 'noise' in the group environment and not directly relevant to operating actors in terms of its usefulness or exploitative potential, a number of respondents mentioned instances where such information was either used by them, or against them, to further their position in a relationship with an internal partner. One respondent talked about a situation where his business unit was performing significantly ahead of budget. This information was communicated to his internal customers (the majority of his business) by a divisional chief executive at a group conference.

"The chief executive stood up at one of the conferences and said how far Agrivite was ahead of budget and immediately all those business unit people (internal customers) thought 'Ah he's ahead of budget and riding on my back'". Respondent 27

A greater awareness and knowledge about an internal partner can have a number of consequences. On the one hand it can bring companies closer together by increasing their understanding each has about the other's position, in terms of goals, attitudes, values and ways of working. On the other hand it can be used by one partner to enhance his position over another in terms of pursuing personal objectives that would be perceived to be detrimental by that trading partner. (For example by increasing prices above market levels). The propensity to follow each route will depend on how actors see their intragroup relationships from their perspective and the value they attach to them in furthering their individual interests, a theme which is explored in the next Chapter.

8.6. Conclusion

This chapter has been concerned with the flow of information between companies in a group. We have set out to identify factors in the group environment which are responsible for influencing the distance between actors by impeding or enhancing the information flow between them. In so doing, we have sought evidence for our fourth proposition (P4), which suggests that the group context is likely to increase the level of information that each party has about the other and the breadth of interaction between them. As a consequence, this is likely to affect the perception of each others' position.

We have examined elements of proposition P4 through the application of various content frames. In Frame 26, we investigated whether corporate centres are responsible for increasing the level of information exchanged between operating actors; whilst in Frames 27 and 68, we evaluated the impact of openness in intra-group relationships and its effect on internal communications. In Frame 28, we saw how an information flow can be enhanced through informal mechanisms such as group grapevines and personal networks. In Frame 30 we examined the impact of individuals transferring between companies within the group. Finally, in Frame 77, we attempted to measure whether companies are more knowledgeable about the activities and performance of their internal trading partners as a consequence of belonging to the same corporate group.

We have shown that a corporate centre may seek to reduce the cultural distance between actors by encouraging openness in their relationships. It may specifically value the exchange and sharing of information across the group as a means of transferring best practices. It may also regard the transfer of information as a mechanism for deriving synergies between its various operating companies. Overtime, it may inculcate these attributes into the value systems of its operating actors.

We have also seen that the group environment can reduce the social distance between operating actors by increasing the breadth of interaction between them. The centre may deliberately bring actors and individuals together in forums that are outside the normal boundaries of their relationships. It may encourage the exchange of personnel between actors as a means of transferring knowledge and building personal bonds. Informal information systems, in the form of group grapevines and personal networks, can also be important information sources for group companies that can shape their perceptions of other actors.

We have also identified that in other circumstances, the level of information flow may be less extensive. The centre may not value the transfer of information between its actors preferring their individual autonomy and accountability. In this case, it may take a neutral or even negative stance to the transfer of information across the group.

Individual operating actors may not perceive it to be in their interest to be open with each other despite official encouragement from the centre. This occurs where actors perceive that information can be used against them to weaken their positions.

We must conclude that the group context is likely to increase the level of information each party has about the other, and the breadth of interaction between them, where the social and cultural distance between actors within a group is low. Where social and cultural distance between actors is high, the group environment is likely to inhibit the level of information exchange between actors thereby diminishing their knowledge of each other. Social and cultural distance have major implications for the success, or otherwise, of group policies for internal trading.

Chapter 9

Trust between actors in intragroup relationships

Introduction

This chapter investigates the factors that influence the level of trust between actors in a group. In marketing and purchasing literature, trust is recognised as a significant factor influencing the formation, maintenance and development of relationships between actors in business networks. Co-operation between actors requires a minimum amount of trust for exchange process to operate. Trust creates attitudes which in turn lead to more efficient and effective relationships.

Trust may be considered as a 'state of mind, an expectation held by one trading partner about another, that the other behaves or responds in a predictable and mutually acceptable manner'. (Sako 1992). Young (1996) identifies that trust has been considered in past literature in a number of ways. One view considers trust in terms of conditions responsible for generating trust, either in an entity to be trusted, or in a particular setting or situation. In this context, opportunism is linked to trust in that when participants in business relationships trust, they are less likely to undertake opportunistic activity, exploiting transaction partners as a means of gaining short term advantage (Young 1996). The risk of opportunism must be there for trust to operate. (Bradach & Eccles 1989). Opportunism is cited as one of the reasons that makes actors reluctant to engage in long term partnering (Biong, Parvatiyar & Wathne 1996), and is characterised by self interest manifest in behaviour such as:

- Suppliers charging monopoly prices.
- Actors taking unilateral advantage of their relationships.
- Actors taking exchange partners for granted.

The prediction of transaction cost economists is that 'locked in' partners will become victims of opportunism. (Williamson 1985). A lock-in can result from asset specificity where assets are dedicated to business relationships that are non recoverable. This limits the flexibility of an owner and increases dependence on a business partner. People stay in relationships because they want to, or, because they have to.

A lock-in situation occurs when a corporate centre mandates trading between internal companies. Under these conditions, both parties to a relationship are 'locked in' by an external authority. A weaker form of this lock-in is likely to occur when a corporate centre encourages interaction between its business units. In the case of an 'external lock' we might surmise that opportunism can be pursued by both parties to a relationship rather than being one sided. Opportunistic behaviour may therefore be a consequence of group policies of intragroup trading. This situation is highlighted in proposition P5, which proposes that:

In a situation where the centre mandates interaction between the operating actors in an intragroup relationship, the mandate may affect the nature of the relationship. Actors may regard the terms of a mandate as an opportunity to behave differently towards a partner.

- **An intragroup seller may give proportionately less commitment to an intragroup buyer in terms of service, quality and other exchange variables.**
- **An intragroup buyer may demand a proportionately higher level of commitment from an internal seller.**

The potential to opportunistically exploit the terms of a trading mandate will therefore influence the level of trust between actors in intragroup relationships.

In Section 9.1, we investigate evidence for internal sellers taking advantage of their relationships with group buyers. We note that the expectation for opportunistic behaviour to occur is well recognised by actors, which may condition their trust of a internal partner, and attitude to group trading.

In 9.2, we examine opportunism in the other direction in terms of group buyers exploiting the existence of a mandate to demand higher commitment from an internal supplier. We note that continuous episodes of opportunism lead to high levels of conflict and conclude that trust may be more difficult to build in intragroup relationships specifically because of the heightened potential for opportunism to occur on both sides of the relationship.

An alternative perspective of trust is to view it in terms of those things which result from trust (e.g. co-operation) or lack of trust (e.g. suspicion). Internal actors may be suspicious of each other for a number of reasons. They may perceive themselves to be rivals for resources within the group that reward them as individuals. They may also believe that their general competence and effectiveness can be revealed to the centre through their involvement with other group actors within intragroup relationships. Trust in this context can be viewed as a 'risk reducer' or something needed as a result of risk being perceived. (Young 1996). We therefore propose in Proposition P6 that:

Trust between parties within intragroup relationships may be affected by the influence of the centre. For example:

- **Operating actors may regard themselves in competition with each other for group resources and rewards.**
- **Operating actors may perceive that their competence and performance is being evaluated through their involvement in the relationship.**

Therefore, individual actors perceive the relationship as involving higher personal risks.

In Section 9.3 we see how competition and rivalry may arise within intragroup relationships and note that a centre may deliberately promote rivalry between actors to achieve certain objectives. We go on to explore how rivalry manifests itself in internal relationships and note the conditions where rivalry can shift from being 'constructive' to 'destructive'. Finally, we investigate the link between rivalry, risk and trust and conclude that individuals may perceive themselves to be more exposed, and feel more at risk, through their involvement with other group actors.

The aim of this chapter is to see how being in a group affects the level of trust between operating companies and the relationships formed between them. We start by investigating whether opportunistic behaviour is a feature of intragroup relationships.

9.1 Opportunism - Group sellers over buyers

The aim of this section is to identify the linkage between mandate, lock-in and opportunism and investigate whether there is evidence that group sellers exploit the existence of a mandate and act opportunistically in their relationships with group buyers.

A range of scenarios was developed to obtain feedback from respondents, identifying whether they perceived that opportunistic behaviour was a feature of their relationships with other group companies, and highlighting the form it manifested itself. The results of Frames 49, 50, 53 and 74 were combined in Frame 78 to provide an overview of whether group sellers tended to act opportunistically. (Frame 78. Opportunism group sellers over buyers. Mentions 243. Response 30/10). Statistical analysis of Frame 78 indicates that supplier opportunism seems to feature particularly strongly within Agrifood, although no significant difference was found between the responses of both group. It's existence - or potential existence - was recognised by most respondents. (Mean scores: Agrifood respondents 1.2, other respondents 0.7. One sample t-test significantly different from zero).

9.1.1. Supplier opportunism and service quality

Opportunism related to service quality was investigated in Scenario 30, and analysed in Frame 49. (Mean scores: Agrifood respondents 0.8, other respondents 0.5. One sample t-test significantly different from zero. No significant difference recorded between groups). The theme that internal companies provide poor service to group buyers was highlighted by a number of respondents. The belief that a mandate provides a degree of protection to internal suppliers was identified as a significant contributory factor. The situation is likely to be exacerbated in circumstances where internal transfer pricing rules result in low margins for the supplier.

".... there is a natural inclination to say 'well it doesn't matter they are only internal'. And this is even more so if the margin that you make on that business is lowered because of transfer pricing policy." (Respondent 5).

"After Agrifood had acquired us, at the beginning, the first six months we noticed that the service level dropped off considerably with Millpro. No visits from the sales and technical people, that all faded away....... I think we moved from being an absolutely key customer that needed a high service level because

of a fast moving business ... to one 'well in our part in the group you are going to have to buy from us'". (Respondent 7).

"My experience is that intercompany suppliers are generally thought to be the worst suppliers because they know they can get away with it". (Respondent 17).

"What can occur is the supply division often doesn't have a sufficiently strong customer ethic to sister companies." (Respondent 28).

A number of respondents noted that a higher probability of service opportunism was universally recognised by group buyers as being endemic to intragroup trading, almost representing an inevitable outcome of all internal relationships.

"I think to some degree, group companies tend to say 'Well it is a sister company so we won't get as good service as people outside would get.'" (Respondent 10).

9.1.2 Supplier opportunism and product quality

Scenario 31 was constructed to investigate respondent perception of supplier opportunism around product quality. Frame 50 analysed responses that indicated that group sellers tend to exploit the existence of a mandate by compromising product quality. (Mean scores Agrifood respondents 1.0, other respondents 0.7. One sample t-test significantly different from zero. No significant difference between groups). Many respondents recognised the potential for group suppliers to compromise quality standards particularly in the case of marginal decisions and borderline rejections. The fact that a user was an internal customer was perceived to influence a decision to pass or reject marginal product. Respondents indicated that group suppliers were more likely to take chances with internal customers on borderline decisions, more readily than they would with external customers. Again, the lock in effect of the mandate was identified as the primary cause. As one respondent described it "You're a captive audience".

"I think there is a temptation to say that because it's an internal supply situation, that you can get away with things that you wouldn't do with an external customer and maybe you would slip some things through. I can see that happening and have known that to happen". (Respondent 1).

"I think this can happen and definitely you would tend to take a chance if it was on the borderline of specification....... they would be definitely intercompanies who would take that chance". (Respondent 13).

The notion of heightened buyer awareness of the potential for sellers to act opportunistically around product quality was again highlighted.

"It's an issue that will go through every buyers' mind I'm quite sure. Having said that I also think it happens in practice". (Respondent 19).

9.1.3 Supplier opportunism and pricing

The issue of opportunism through price exploitation elicited fewer responses from interviewees, suggesting it was perceived as less important. Frame 74 measured responses that indicated that group companies exploit the existence of a mandate by charging higher prices. (Mean scores: Agrifood respondents 0.9, other respondents 1.3. One sample t-test significantly different from zero. No significant difference recorded between groups). Those who mentioned price did so in terms of prices rising more frequently from internal suppliers. Some respondents expressed the belief that their companies where being charged prices higher than market levels by internal suppliers as a consequence of the group situation. Lack of credible benchmarks in external markets was identified as one of the factors that encouraged price opportunism by group suppliers.

"When it comes to price, the usual feeling is that the sister company is paying a much higher price than the open market customers, inevitably". (Respondent 24).

"It could often be the case that once they're in the group, you find that their prices start to rise because they are an internal sister supplier and you haven't got other companies now calling on you, giving you prices, giving you competitive prices because they feel you may never buy off of them because of your sister relationship". (Respondent 16).

9.1.4 General themes of supplier opportunism

General themes of opportunism based on internal companies exploiting and taking advantage of the group situation provided some very strong responses from interviewees. Scenario 34, generated a significant number of mentions which tended to be critical of internal supply companies. Frame 53 measured responses that indicated that internal suppliers have a tendency to take internal customers for granted. (Mean scores: Agrifood respondents 1.5, other respondents 0.8. One sample t-test significantly different from zero. No significant difference recorded between groups).

Adjectives used to describe group suppliers included: 'arrogant', 'blasé', 'complacent', 'uncommitted' and 'casual'. Internal companies were accused of 'relaxing their effort', 'sitting back' and 'not working hard in forming the relationship'. The situation was summed up by one respondent as 'The classic complaint of in house businesses'.

"I think it is very easy for supplying companies to become complacent". (Respondent 4).

"One of the biggest gripes is that people take the intercompany trade for granted and you don't treat your internal customers as proper customers". (Respondent 24).

The criticisms of internal supply companies was not just identified by group buyers. A number of respondents working in group supply companies highlighted the dangers of opportunism developing in their relationships as a consequences of their attitudes towards internal trading.

"We were guilty of ignoring some of our own customers, our intercompany customers, taking them for granted". (Respondent 14).

"A lot of companies do take internal trade for granted and I think if I'm honest, there's an element of that within our company". (Respondent 24).

A major criticism echoed by many respondents was that internal companies were not afforded sufficient status by group suppliers in comparison to that given to external customers. One respondent highlighted the fact that an internal supplier did not assign specific sales responsibility to group customers. Another observed that his company failed to include an internal user in its 'top 10 list of customers' even though it represented their third or forth largest account. A number of respondents identified that they were less likely to 'wine and dine' internal customers in terms of social entertaining.

"We've been guilty in the past of just saying 'Well they don't really count'. So we've not rolled out the red carpet". (Respondent 14).

"The one company doesn't treat the other one as a proper customer. I think that is the core of a lot of it". (Respondent 24).

Frequent reference was made to internal suppliers favouring external customers and assigning them priority status over internal users. For one respondent this was an 'an inevitable consequence of intragroup trading'.

'If I go and make a presentation to an external customer I give it a lot more thought, I suspect and I make sure my shirt's ironed a bit better if I'm doing it to X (an external customer) *than if I do it to* Y (an internal customer)'. (Respondent 6).

'I know for a fact that if Z (an external customer) *had a problem and Bakery Supplies had a problem then it would be Z who got served first'.* (Respondent 9)

The issue of the lock in effect of the mandate was again highlighted by respondents as a contributory cause of opportunism. In the view of some respondents, this was compounded by a criticism directed at some internal suppliers that they perceived that group business was 'theirs by right' and should therefore be afforded some form of favoured status derived from group membership.

"Tastetec assumed that all the business that was outside of the business that (Internal Company X) *gave to other people should come into Tastetec, and really it didn't have to do anything to get it, to win it, it was there's by right and I suppose in retrospect that's the classic way to upset a sister company".* (Respondent 1).

"If they haven't got to go and chase the business, they know they have got the business, then I don't think the incentive is there for them to respond in the same way". (Respondent 9).

9.1.5 Expectation of opportunism

Evidence from respondents indicates that supplier opportunism is perceived to occur, or have occurred, in many of the relationships reviewed in the field research. Group buyers seem to have a high level of awareness of the potential for internal suppliers to behave opportunistically, which is likely to influence their expectations of internal relationships. Group buyers may expect a lower level of commitment from internal suppliers even prior to the formation of trading relationships, for example where a seller is acquired into the group. An important implication of this heightened awareness is that buyers may enter into relationships with suppliers inside the group with a lower level of trust and a higher level of suspicion. They may perceive the requirement to closely monitor the performance of internal supplies, particularly in the early stages of relationships development. This has two important implications for intragroup actors:

- Group buyers are likely to be reticent to allocate all their business with an internal supplier despite mandates or encouragement from the centre to source products and services from group companies.
- Group sellers may need to demonstrate high levels of commitment to internal customers to convince them of their credibility and trustworthiness as a supplier.

9.1.6 External benchmarks

The first of these issues was investigated in Frame 55 which was set up to record respondent opinions on the need for external benchmarks, and to identify evidence of buyer reluctance to allocate all business with internal suppliers. (Frame 55. External benchmarks. Mentions 41. Response 19/5). Statistical analysis indicates strong support for the view that internal buyers are reluctant to source exclusively from internal suppliers, because of the need for external benchmarks in their relationships. (Mean scores: Agrifood respondents 1.2, Other respondents 2.0. One sample t-test significantly different from zero). The Mann-Whitney test showed a significant difference between groups in that non Agrifood respondents expressed particularly strong views (although the number of respondents expressing views was relatively low, N = 5).

Respondents highlighted the danger of 'being insular' and the problems associated with 'taking away the disciplines of the external market' through exclusive internal sourcing arrangements. The potential existed for the relationships to become 'too comfortable' and introverted. Whilst it was generally acknowledged that internal buyers needed to monitor external markets for technical and commercial developments, respondents mentioned the need for 'insurance and safeguards' against internal suppliers taking them for granted and acting opportunistically. Even where an internal company supplied a large percentage of their business, group buyers were reluctant to adopt an exclusive internal supplier.

"The one thing you can't afford to do is just to come in house and suddenly go away from what is happening outside". (Respondent 13).

The need maintain contact with the external market actors involves internal buyers incurring additional monitoring and search costs, which may partially negate and offset benefits of interaction between internal companies to the group as a whole. Efficiencies and economies in transaction costs which potentially derive from common ownership may be lost due to the expectation that group suppliers will act opportunistically, offsetting benefits that may derive from efficiency and synergy. Results from this study would suggest that the perceived need to guard against opportunism may be an inevitable cost of intragroup interaction particularly in the early stages of relationship development.

A further problem confronting group buyers is that although they may recognise the need to use external companies to benchmark performance of internal suppliers, the former may utilise the situation to act opportunistically and attempt to destabilise the relationship between internal companies. In the expectation that a group buyer is likely to favour an internal actor, an external supplier may be reluctant to quote prices to a group company, or may provide 'misinformation' that undermines the position of the internal supplier, casting doubt on its trustworthiness. An external supplier may indulge in quoting 'silly prices' in the expectation that these would not be taken up by the group buyer. Group memberships may therefore represent a partial barrier to optimum efficiency based on free market reference and feedback. Robust benchmarks may not be available to monitor the 'true' effectiveness of internal suppliers.

9.1.7 Internal supplier commitment

The requirement for internal suppliers to demonstrate increased levels of commitment to group buyers was measured in Frame 56. Commitment in this context may be seen as a willingness to do more than is formally expected (Sako 1992). The frame measured respondent perceptions of whether they needed to put a higher than normal level of effort into their relationships with group buyers. (Frame 56 Internal seller commitment. Mentions 22. Response 10/3). Statistical analysis indicates that whilst the frame recorded a low level of response, those interviewees expressing an opinion, all strongly endorsed the need to raise the level of commitment when dealing with group companies. (Mean scores: Agrifood respondents 2.0, other respondent 2.0).

Respondents identified the need to 'work harder', 'to go that extra mile internally'. A number of respondents made comparisons between internal and external relationships and highlighted the higher standards required to service internal companies.

"I think the standard of performance in sister company trade ..... will usually be higher than if you are dealing with a third party. I think particularly in the early stages of the relationship you have got to perform better on all the key criteria than a third party. If you drop away from that, the sceptics (and there's probably more sceptics than supporters) will tend to exploit that. So the standards of performance are usually much higher for intercompany trading." (Respondent 28).

This again calls into question the efficiency of intragroup relationships in terms of reducing or economising transaction costs of intragroup exchanges. We have seen in the previous section that the expectation of opportunism is likely to motivate group buyers to seek benchmarks and measures amongst external actors to reference 'acceptable performance standards'. At the other end of the scale, internal actors may need to incur additional costs in proving their trustworthiness as credible suppliers, and over come potential prejudices associated with intragroup trading. This, again, is likely to offset benefits of group membership in terms of reducing transaction costs between internal actors resulting from common ownership. These findings would support the widely held perception among business unit managers that the costs associated with internal transactions exceed those of external transactions in mult-divisional companies. (Eccles & White 1988).

We have seen that the need for internal suppliers to demonstrate higher levels of commitment to group partners arises because of the requirement to overcome the suspicion that they will act opportunistically in their relationships with other group companies. However, this is not the only reason it arises. The need to demonstrate higher levels of commitment is also associated with the fact that internal buyers may themselves expect higher commitment from internal suppliers. This expectation is again related to the lock-in properties of a mandate and represents a reverse form of opportunism to that discussed so far. Whilst group sellers may exploit the existence of a mandate by, say, providing a lower level of product quality or technical service, group buyers may exploit a mandate to demand the opposite.

9.2 Opportunism - Group buyers over sellers

This section investigates the incidence of opportunistic behaviour on the part of group buyers in intragroup relationships. A range of scenarios was again formulated to elicit feedback from respondents identifying whether they perceived that opportunistic behaviour featured in their relationships with other group buying companies and identify the form it manifested itself. Results of Frames 51, 52 and 70 were cumulated into Frame 79 to provide an overview of whether group buyers tended to act opportunistically, directly because of the group context. (Frame 79. Opportunism group buyers over sellers. Mentions 98. Response 29/9). Overall results from the one sample t-test are significantly different from zero. (Mean scores Agrifood respondents 0.9, other respondents 0.7). Analysis of the frame again indicates that buyer opportunism seems more prevalent in Agrifood than other organisations although no significant difference was recorded between groups. In comparison to the previous section, whilst other respondents recorded identical mean scores in Frames 78 and 79 (measuring 0.7), Agrifood respondents indicated that seller opportunism was more predominant than buyer opportunism in their organisation. (Mean scores: Frame 78: 1.2, Frame 79: 0.9).

9.2.1 Buyer opportunism and price expectation

The issue of price exploitation was featured in Scenario 33. Frame 51 measured responses that indicated that group buyers exploit the existence of a mandate by demanding lower prices. (Mean scores: Agrifood respondents 1.0, other respondents -0.7). Results in this frame were inconclusive in that the one sample t-test was not significantly different from zero. Some respondents identified that in the absence of defined transfer pricing rules, group buyers may perceive the opportunity to negotiate more strongly for price concessions from internal suppliers in the expectation that they should be afforded a favoured status (aptly described by one respondent as 'staff discount'). This expectation my may motivate group buyers to be more demanding in their negotiations with group suppliers. The expectation of buyers achieving advantageous prices from group companies was reported by a number of respondents.

"Their immediate reaction is to come in for a 10% price reduction as they are now in the company (group)". (Respondent 1).

"Quite correctly, they (an internal supplier) anticipate a reduction in prices they can charge". (Respondent 3).

9.2.2 Buyer opportunism and service expectation

Similar themes to the ones expressed in the previous section relate to service expectation. Frame 52 measured respondent perceptions of whether buyers exploit the existence of a mandate by demanding higher levels of service. (Mean scores Agrifood respondents 0.3, other respondents 0.6). Again the t-test did not show a significant difference from zero. Some respondents reported that their group customers were generally more demanding on them as internal suppliers in terms of order lead times and service response levels generally. Because they were part of the same group, internal customers may expect to be given priority status by their internal suppliers in terms of satisfaction of their requirements ahead of other users.

"They actually do demand higher service levels of some of our sister companies than they would do in the normal market place. We tend to get pretty cross with people who do that to be honest." (Respondent 37).

<u>9.2.3 General themes of buyer opportunism</u>

General themes of buyer opportunism were reflected in statements that group buyers tended to be more critical of internal suppliers, more likely to air grievances and complaints, were generally perceived to be less tolerant and patient and more likely to impose 'unrealistic demands'. These responses were recorded and measured under Frame 70. (Mean scores: Agrifood respondents 1.5, other respondents 1.0. No significant difference recorded between groups). In this case, the one sample t-test was significantly different from zero. Respondents expressed these views in relative terms and highlighted dual standards in the treatment of internal and external suppliers. There was a belief amongst some respondents that group buyers make demands on internal suppliers that would not be asked of other suppliers external to the group.

The lock in effect of a mandate was again recognised as a major contributory factor in shaping buyer behaviour where it was perceived that group sellers were 'locked into' internal supply. Restrictions imposed by a mandate were seen as something that could be exploited by internal buying companies by making 'excessive demands', with little concern about group buyers withdrawing from their relationships. It was also recognised that such behaviour could manifest a deliberate tactic employed by group buyers, to de-motivate and discourage internal suppliers by continuously demanding increased levels of resource and commitment. This was likely to occur when an internal buyer objected to the terms of a mandate to source products or services from internal companies and where superior trading partners were perceived to exist external to the group.

Whilst it is difficult to assess the reality behind these statements of 'excessive demand' in practice, the inclination and motivation for group buyers to behave opportunistically was certainly recognised as a potential outcome of the imposition of a mandate that locks companies together. Initial perceptions are important in shaping eventual outcomes. The imposition of a mandate may immediately heighten awareness and suspicion of opportunistic behaviour to occur and will shape from an early stage the way group companies think about their relationships with each other and their behaviour in terms of day to day interaction. In a group situation, this would seem to apply to both parties in a relationship.

Continuing incidences of opportunistic behaviour by one or both parties can be a significant cause of dispute and disagreement between actors in intragroup interaction. It is one of the factors that appears to generate high levels of conflict that seen to be inherent in these relationships. Sellers may come to resent the 'excessive' demands of group buyers. The latter may feel resentful of being taken for granted by group sellers, and of being afforded a lower status compared to other external companies (who may be their competitors). Over time, actors may come to feel dissatisfied and disappointed with their internal relationships. However, at the same time may also feel powerless to withdraw from internal interaction because of a real, or perceived, lock in effect of a mandate. The danger in this situation is that group relationships may deteriorate into acrimony and bitterness between actors. The issue of conflict in intragroup relationships is featured in the next chapter. At this stage we can note that the potential for opportunistic behaviour to occur within the group context, is significantly heightened in intragroup relationships and is likely to be accompanied by an increasing incidence of dispute and conflict between actors and can become a characterising feature of intragroup interaction.

9.3. Rivalry risk and trust in intragroup relationships

We have seen that heightened awareness and potential for opportunistic behaviour to occur in intragroup relationships increases the level of mistrust between the parties and can lead to a higher incidence of disputes and conflict. So far we have considered trust at an actor level of business unit or operating company where opportunistic behaviour is pursued by firms within the group environment.

Opportunistic behaviour can also occur between managers within group suppliers and customers. The pursuit of opportunistic advantage may increase the level of mistrust between individuals within buyer seller relationships. Managers may regard relationships with other group companies as a mechanism through which to take unilateral advantage to improve a position over other individuals. The motivation to improve personal position stems from the fact that individuals may perceive they are rivals within the wider context of the group. (E.g.. for personnel advancement). Intragroup relationships may therefore be viewed as vehicles for actors to improve a position over potential rivals. Competitive rivalry may be regarded as an important source of mistrust between actors in intragroup relationships. Operating actors are less likely to trust partners who they perceive as rivals.

9.3.1. Competitive rivalry between actors in intragroup relationships

Competition occurs when two actors have objectives which are in conflict whilst the locus of their objective is under the control of a third party. (Easton & Araujo 1992). Under these circumstances, competition can be regarded as 'parallel striving' by actors in pursuance of similar goals. In the context of wider network relationships competition occurs between suppliers to a common customer. Similarly buyers may compete for products and services of a monopoly supplier.

In intragroup relationships, individuals may perceive themselves to be in competition with each other for limited resources within the group. For example, business unit managers A and B may perceive themselves to be in competition for advancement inside the group, which is likely to be under the control of the corporate centre. Personal relationships between A and B may therefore begin to express themselves at the operating actor level. Competition between individuals can be a significant factor in shaping interaction between group companies. Easton & Araujo note that a crucial aspect of competitive relationships is that they rely on the assumption of 'dual sourcing' in that there must be a common customer, or in this case, a common centre. Thus, if the centre discounts the advancement of individual A, this may change A's attitude to B which may also effect the tone of the general relationship between their operating companies.

Competitive rivalry was examined in Scenario 35 where respondents were presented with the statement that **'People at times feel they have something to prove and seem to be in competition with each other in intercompany relationships'.** Frame 57 was set up to measure respondent perception of the incidence of competition between individuals in their relationships with other group companies (Frame 57. Rivalry between actors.

Mentions 127. Response 30/10). Statistical analysis of responses provided a significant difference between Agrifood and other organisations. Whilst Frame 57 recorded positive mean scores for both groups, competitive rivalry seemed to feature particularly strongly in Agrifood. (Mean scores Agrifood respondents 1.5, other respondents 0.8. One sample t-test significantly different from zero). In discussing their reactions to the scenario in terms of personal experiences, a number of respondents expressed strong views about the nature of competition in their organisations.

"This is one of the biggest problems, biggest single problems, in intercompany relationships". (Respondent 5).

"Oh yes. Endlessly. Endlessly". (Respondent 11).

"I think we can all think of examples in the past where we've ended up in competition". (Respondent 15).

"I'm sure this is a significant issue, more so than people will recognise". (Respondent 19).

"Yes very much. Absolutely recognise it". (Respondent 29).

"Oh without doubt. I think certainly between business managers that could be true". (Respondent 33).

A significant contributory factor generating competition between individuals and operating actors in intragroup relationships is the nature and extent of reward and measurement systems that are laid down by the centre. In multi-divisional companies, these are extensively used to evaluate the effectiveness of managers and the success or otherwise of individual operating units.

Measurement and reward systems are closely related, in that the achievement of prescribed measures (in the form of financial targets) is usually the basis for the allocation of future rewards. For individuals, these rewards are likely be of a financial nature but they may also satisfy less tangible needs such as status and advancement within the wider organisation. Similar considerations apply to operating companies where financial rewards may come in the form of future investment funds. Status as a leading company within the group may also be seen as important. Past track record of an individual or operating company is a critical indicator of the allocation of future rewards.

The availability of rewards is necessarily limited. Opportunities for advancement diminish at higher levels within hierarchies. Investment funds are constrained by capital markets inside and outside the group. Individuals and operating companies may perceive they are in competition with each other for resources that are constrained within the corporate environment. In a wider network context, the circumstances are similar to suppliers competing for limited resources of customers.

9.3.2 Encouraged rivalry in intragroup relationships

In certain circumstances a corporate centre may specifically encourage the competitive nature of its business units. One way it can do this is to make direct and public comparisons between operating actors (indirectly, comparing the individuals who manage them). These comparisons are employed to incentivise actors to higher levels of performance. They may also act as a warning to operating actors who are performing below required standards.

The use of comparisons to influence and motivate the effectiveness of individual operating actors was reviewed in Scenario 14. Respondents where presented with a statement that: **'Your performance as a operating company is continuously being compared to other group companies by people at the centre'.** Frame 22 measured responses that suggested corporate centres regularly compare performances between operating units. (Frame 22. Comparisons - actual. Mentions 44. Response 25/8). Statistical analysis shows strong evidence of comparisons being used across respondent organisations. (One sample t-test significantly different from zero). Identical mean scores of 1.8 were recorded by Agrifood and other respondents.

For many respondents, comparisons with other operating actors was an inevitable consequence of group membership that had positive and negative outcomes.

"I think that this is inevitable. It's bound to happen within a group like Agrifood that's got a number of business units and to a certain extent, most of the time it's done in a positive way and for benefit". (Respondent 5).

"We find ourselves compared with Tastetec and Coverco on a regular basis. It doesn't help relationships especially as we don't seem to come out as well as we believe we should". (Respondent 15).

"Performances are compared, their profitability and other parameters are used to encourage people to some extent to compete I suppose". (Respondent 32).

"I think that's absolutely right, very much so. I mean there is keen competition here ...... there is very strong competition to make sure one's doing better than the others". (Respondent 33).

The consequences of comparisons heightening rivalry between individuals and business units was highlighted by a number of respondents, particularly in Agrifood. Where a corporate centre makes deliberate and overt comparisons between its operating actors, this may change the attitude and perception of operating actors towards each other and the way they view each other. When comparisons are made between businesses, this can generate a negative attitude towards an internal trading partner or, in extreme cases, out right hostility as the following quotations illustrate.

"If two managers were being compared with each other and they also had to trade with each other, they would tear into each other like cat and dog and do everything possible to get the better end of the deal and that sort of comparison made intercompany trading desperately difficult". (Respondent 14).

"Now if you are going to have intercompany trading, you're separate profit centres, obviously if one group's doing particularly better than another and you're being told that they're always doing better than you, you're going to negotiate that much harder on transfer prices or refuse to play ball with them on transfer prices and you become more and more awkward. So that guy running that division, if he's being told he's doing a lot better than this guy, this guy is going to be very hard and not want to deal with him any longer". (Respondent 40)

9.3.3 Manifestations of rivalry in intragroup relationships

When actors perceive they are rivals inside a group, this can thus have a significant influence on the way they behave towards each other. The above quotations illustrate the potential for internal actors to be more outwardly hostile to a group partner or be less accommodating and co-operative. They may be reluctant to enter into relationships with other group companies where they perceive this will further the interests of a rival. By entering into exchange relationships actors may feel that they are assisting a rival to improve a position, giving access to future rewards which are valued across the group.

Competition and rivalry may express themselves in other ways. Using the comparison of market networks, where two actors are in competition with each other to secure the business of a common customer, a continuous activity for both suppliers is to demonstrate the superiority of their skills and capabilities over those of competitive suppliers. The objective of these activities is to generate a favourable image and perception in the psyche of the customer thereby improving their position to receive future rewards in terms of increased revenues. The perceived fear that a competitor is following similar routines will drive the continuous reinforcement of these image enhancing activities.

Internal actors may see their relationships as a way of demonstrating their competence to the centre in terms of their managerial efficiency and effectiveness. They may also view these relationships as a means of establishing their superiority over other actors in the group. In this aspect, respondents recognised a positive and constructive element of competition that drives internal actors to heightened levels of performance. There is also a perceived 'fear factor' for under-performing actors, in revealing weaknesses and inefficiencies.

"People do feel they have something to prove because if you want to be the most successful within, say the (X Division) *for instance, you want to be seen as the most successful. You don't want to be seen as the one that's at the bottom of the pile and there is a great deal of competition".* (Respondent 6).

However respondents also recognised that there was a fine line between what was considered constructive and destructive competition. The latter occurs when actors deliberately seek to question and undermine the capabilities of their rivals. The tactic of undermining the reputation of an internal partner was recognised as an activity that can characterise intragroup behaviour where actors pursue extreme forms of rivalry. A number of respondents in Agrifood described this behaviour in terms of 'macho posturing,' specifically using the machismo analogy to describe an atmosphere characterised by criticism and one-upmanship. Whilst this represents an extreme form of rivalry between actors in intragroup relationships it was something that seemed to characterise a number of relationships in Agrifood, and something that most respondents recognised had the potential to occur.

"It's about machismo at a senior level". (Respondent 2).

"The trouble is though, a lot of the time is not spent trying to develop cordial relationships, it's spent on the bloody politics of trying to score points off each other and without a doubt, that does go on". (Respondent 5).

"There's a lot of competition. So as soon as criticisms start to be of each other's businesses, start to come to the forefront, then it comes extremely competitive because we have all been criticised (as all companies

in the group are criticised on a number of fronts) and usually we will answer that criticism with a worse and harder criticism and copying in a few more people (E.g. via memos or e mails)". (Respondent 6).

"You do see the macho behaviour sometimes but I don't let it bother me and I am sure most people realise that it is playing to the gallery". (Respondent 10).

"It's the same as in a small family that you find that the brothers and sisters are competing for the affection of their parents. In my experience, you find there's probably even greater competition within companies of the same holding company than there should be outside". (Respondent 18).

The competitive nature of group actors can therefore have a significant influence on the development and maintenance of trust between parties in intragroup relationships. Trust in this sense can be viewed as an emotional response in reaction to a perceived risk. Young (1996) recognises that trust may be described in terms of combinations of emotions felt towards others (such as admiration, respect and faith) and also emotions directed towards oneself (for example confidence). Trust can manifest itself in terms of suspicion and uncertainty. Young notes that suspicion is often seen as an alternative to trust. Actors in intragroup relationships may perceive high levels of risk attached to their relationships with other group companies because of the competitive activities of their trading partners directed against themselves.

9.3.5 Risk and exposure

Actors may also feel that higher levels of risk are associated with intragroup relationships because of the exposure and visibility these give within the group environment. The issues of risk and exposure were investigated in Scenario 37, where interviewees were asked to respond to the statement that: **'A manager in your business tells you that he thinks his actions are more closely scrutinised when dealing with a sister company and he feels more at risk'.** Frame 58 measured perceptions of whether respondents felt exposed and vulnerable in their internal relationships. (Frame 58. Exposure & vulnerability. Mentions 100. Response 30/10). Statistical analysis indicates no significant differences between the views of Agrifood and other respondents. Mean scores of 1.0 (Agrifood) and 0.5 (other respondents) indicate that internal actors do perceive some element of risk when interacting with other trading partners within the group. (One sample t-test significantly different from zero).

Respondents used a number of themes to describe the visibility of the group environment. They talked about being 'more closely scrutinised' in their interaction with other group companies, in comparison with dealings with external partners. Views were expressed that the environment was 'more public', 'more under the microscope' and more of an 'exposed position'. People perceived they were more closely 'watched' where mistakes can be drawn to the attention of corporate management very rapidly. One respondent described an account of an audit of a laboratory facility by an internal customer where certain practices were severely criticised. The report of the audit was quickly drawn to the attention of centre who castigated local management in the supplying company. Whilst a number of respondents recognised that the watchful eye of 'big brother' at the centre was more in the minds of people rather than proven in reality, it was generally agreed that a perceived increased exposure associated with the group environment was responsible for making actors more cautious and aware of their activities with other group companies.

Respondents associated increased risk with being 'more conscious' of their actions and more concerned about the consequence of their decisions. It was recognised that 'doing a bad job' was more likely to lead to a 'risky position' for internal actors whilst interaction with companies outside of the group was less likely to come to the attention of the centre where mistakes and misjudgements had been made.

".... people recognise it is more exposed and more visible and therefore sometimes you're better off not taking the risk at all". (Respondent 20).

An area in which risk may be particularly sensitive is where group actors negotiate with each other, for example, in implementing price rises. Visibility of an agreement may be increased when both actors report to a common centre. The outcome of individual decision making and the effectiveness of the overall settlement has a greater chance of being visible to, and evaluated by, a higher authority. In this situation, actors may be particularly aware of personal reputations and may be more reticent to make concessions to an internal partner, fearing this may be interpreted as a general sign of weakness. The issue of internal interaction shaping the reputation and image of individuals within the group was noted by a number of respondents.

"I understand why the guy would feel at risk because his performance in that relationship could have a major impact on his long term career in the group". (Respondent 5).

"... people are worried about their own reputations around the group ..... I think they are worried that if they don't get it right they'll be in trouble for whatever reason. I think that is what worries people. So they spend more time trying to make sure they're not the one responsible for it being wrong as opposed to just getting it right". (Respondent 15).

Increased risk and uncertainty also arises from the fact that there is a higher probability within the group that individuals who are colleagues or group trading partners in the current trading environment may become 'bosses' and superiors in the future. As one respondent candidly pointed out:

"I think there is an element of human nature here that says its common sense to make the most of dealing together .... because there is an element of fear that comes into it. You never know whose going to be running you in the future". (Respondent 1).

These findings provide some explanation of why managers prefer the less ambiguous circumstances of external trading and would seem to have a bias against using internal suppliers, or a bias against preferentially favouring internal customers. Eccles & White (1988) have noted this bias and argue that it emanates from risks associated with transacting with someone in the same hierarchy of authority. In a transaction between two profit centres, if a delivery is late or quality is poor (using Eccles & White's analogies), what had been a market relation can, and managers fear will, move through hierarchical channels to a higher authority. The group environment provides the context for this to occur.

9.4 Conclusions

This chapter has highlighted a number of reasons why trust may be difficult to achieve between actors in intragroup relationships. We have used the content frames to examine various aspects of trust featured in propositions P5 and P6. Frames 78 and 79 looked for general evidence that operating actors take opportunistic advantage of trading partners because of their positions within the group, whilst Frames 55 and 56 have examined the consequences of a lower level of trust between group actors. Frame 57 examined trust in terms of rivalry that can be generated between actors, and Frame 58 investigated the issue of risk and exposure felt by actors within the group environment.

We have seen that one of the implications of imposing or encouraging a trading mandate between group companies is to introduce a double lock in effect, which provides actors on both sides of the relationship with an opportunity to exploit the conditions of that mandate to their advantage. Group sellers may feel they can avoid giving high levels of support to internal buyers. The latter on the other hand may see the mandate as justification to demand increased commitment from an internal supplier. Actors seem well aware of the potential for an opportunistic advantage to be exploited by trading partners, which shapes their expectations and trust of other group companies.

We have also seen that the suspicion of opportunistic behaviour (founded on past episodes or perceived fear) increases transaction costs between actors in intragroup relationships, partially negating cost advantages that may accrue from common ownership. Group buyers may feel they have to develop alternative relationships with external suppliers to benchmark performance and provide a counter measure to the threat of opportunism. (Although in practice, true benchmarks may be difficult to develop because of the group situation). Internal suppliers may have to incur additional costs in proving their credibility to internal partners. These factors support the claim of many business unit managers that the costs associated with internal transactions exceed those of corresponding external exchanges.

We have identified that trust between group actors is also influenced by rivalry that may develop between them because of the group situation. We have seen that the group environment can shape competitive pressures between actors where they perceive they are in competition for resources which are controlled and apportioned by the centre. Excessive levels of rivalry may lead players to pursue 'one-upmanship' strategies to further their positions at the expense of other group actors. This can increase the level of exposure of operating actors to the corporate centre. Internal actors may therefore attribute a higher level of risk to their relationships with other group companies which further influences the level of trust between them. The potential for the group environment to enhance competitive pressures between group actors provides some explanation of why internal companies favour external rather than internal trading partners.

We can conclude that in intragroup relationships, trust is an outcome of hierarchical and network influences. Factors inherent in one governance system (e.g. authority and rivalry in hierarchies) interact with elements of another (e.g. competition and co-operation associated with networks) to shape the level of trust and the perception that one actor holds about another.

Chapter 10

Conflict and conflict resolution

Introduction

In previous chapters, we have highlighted factors that can generate conflict between actors in a group. We have seen that where operating companies behave opportunistically towards each other this can result in intense argument and dispute. We have recognised that conflicts can arise through varying interpretation of trading and transfer mandates by parties in an internal relationship. We have also identified that the very existence of a mandate may cause an adverse response among actors who perceive they are disadvantaged by its imposition.

In this chapter, we bring together these themes and investigate conflict in the context of intragroup relationships. Our particular interest is to understand how conflict arises and how it is managed and resolved. Our objective is to identify those factors that make conflicts between actors in a group different from those associated with buyer/seller interaction of unrelated actors. Our position on this in presented in Proposition P7 which contends that:

The resolution of conflicts between actors in a group may be affected by a mandate because:

- **Termination of their relationship may not be allowable under the terms of the mandate.**
- **Intragroup actors may regard acts of deselection as involving personal risks to themselves.**
- **The centre may take some role in resolving conflicts between operating actors.**

Therefore exchange may take place between operating actors even within an atmosphere characterised by high levels of conflict and disagreement.

In section 10.1, we investigate whether intragroup relationships are identified with higher levels of conflict in comparison to that associated with interaction between buyers and sellers outside of a group. We go on to highlight factors unique to the group environment that are responsible for causing disputes and arguments amongst internal actors.

In section 10.2, we analyse how conflict is regulated and resolved in intragroup relationships. We see that actors may not have the option of withdrawing from their relationships under the terms of a mandate. They may also be reluctant to terminate interaction because of possible sanctions from the centre. We see that corporate centres are likely to be reticent to arbitrate in disputes between sister companies and highlight the responsibility of business managers in regulating disputes between their respective units. We conclude that disagreements may be more difficult to resolve within a group.

10.1 Conflict in intragroup relationships

10.1.1 Sources and functions of conflict

Actors in business relationships have both shared and contradictory interests. If they do not learn how to deal with the contradictory ones the resultant outcome is conflict. (Hakansson & Gadde 1992). Conflicts between buyers and sellers cannot be resolved once and for all, they are inherent in all business relationships and have to be regulated and tolerated permanently. Conflict requires a minimum level of mutuality between trading partners. (Ford, Hakansson & Johanson 1986). In any relationship, therefore, there is an inherent tension between conflict and co-operation because actors will be continuously sensitive as to whether they are receiving an adequate or equitable share of the benefits that accrue from their relationships.

Conflict represents a situation governed by opponent centred strategies (Easton & Araujo 1992) where actors objectives are mutually exclusive. A member of an organisation is said to engage in conflictual behaviour if he consciously, but not necessarily deliberately, blocks another member's goal achievement (Pondy 1967). Each contact point in a network can therefore be a source of conflict as well as harmony (Powell 1990).

The term 'conflict' can be variously used to describe certain states, conditions or behaviours. Some writers have viewed conflict in terms of its antecedent conditions relating its causes to problems of resource scarcity or policy differences. Conflict can be analysed in terms of its cognitive states in terms of an actor's perception or awareness of a conflict situation. Conflict can be used to describe certain types of behaviour ranging from passive resistance to overt aggression. Finally, conflict can seen in terms of affective states it induces in actors such as stress, tension, hostility and anxiety.

Conflict between organisations is an inevitable outcome of functional independence and scarcity of resources (Assall 1969). Pondy identifies three models or types of conflict among sub-units of formal organisations. The first he terms the 'Bargaining Model' describing conflict between interest groups in competition for scarce resources. This model typically describes conflicts that arise in classical labour/management disputes. The 'Bureaucratic Model' analyses conflict along a vertical direction in terms of superior-subordinate relationships. It typically describes conflict in terms of institutional attempts to control behaviour and an organisation's reaction to such control. Conflict occurs when one party seeks to exercise control over some activity that another party regards his own province and seeks to insulate itself from such control. The drive for autonomy of sub-units within an organisation can be analysed under this category. The third model is termed the 'Systems Model' which is directed at lateral conflict or conflicts among the parties to a functional relationship. Conflict arises through a divergence of sub-unit goals and is associated with problems of co-ordination. Disputes may arise when two parties who must co-operate on some joint activity are unable to reach a consensus on concerted activity.

Pondy recognises that these conflict sources may be present simultaneously within the context of the same organisation or conflict situation. He also notes that conflicts may be perceived by actors in a relationship when no conditions exist. In this case, conflict can result from the misunderstanding of each others' true positions and can be resolved by improving communication between the parties. This model has been the basis of a wide variety of management techniques aimed at improving interpersonal relations between actors in a relationship.

Conflict is intimately tied up with the stability of the organisation and is frequently negatively valued by organisation members. However conflict can be regarded as functional as well as dysfunctional for the individual or organisation. Hakansson and Gadde (1992) point to the mistaken belief that the elimination of all conflict is a prerequisite for developing improved supplier relationships. Conflict can represent a catalyst that enables a better climate for innovation and development where lack of conflict results in the parties placing too few demands on one another. The desirable type of relationship is one where conflict is handled constructively. Constructive conflict can result in improved communications between organisations, allowing for legitimate differences of interests and beliefs to emerge (Assal 1969).

Other positive aspects of conflict can arise where arguments and disputes are deliberately created to produce dissent and competition among organisational sub-units. Eccles & White (1988) identified that within the context of intragroup relationships, conflict between actors makes information available to top management that otherwise may not be known, or would be difficult or expensive to obtain. This allows a corporate centre to be brought into a relationship as an arbiter at critical times.

Finally, it must be recognised that some participants to a relationship may enjoy the challenge of argument and debate inherent in the rivalry between competing sub-units. (Pondy 1967).

The previous analysis has highlighted that conflict is an inherent component of business relationships. In this section, we examine conflict in the context of relationships between group companies, and investigate:

- To what extent intragroup relationships are characterised by conflict between actors, particularly within the context of the intragroup triad.
- Where the main sources of conflict arise.

We then go on to look at mechanisms and administrative procedures used to control conflict within intragroup relationships.

10.1.2 Conflict in intragroup relationships

To investigate further the intensity of conflict between group actors, respondents were presented in Scenario 42 with a statement that **"One of your colleagues observes that you always seem to be arguing with a sister company and nothing ever seems to**

change". Frame 62 was set up to highlight statements where respondents perceived that their internal relationships were characterised by high levels of dispute and argument. (Frame 62. Dispute intensity. Response 27/10. Mentions 65). The one sample t-test for the frame was significantly different from zero. Analysis of the data indicates that both groups of respondents believe that the intensity of argument and dispute tends to be high within their internal relationships. (Mean scores: Agrifood respondents 1.3, other respondents 0.8. Mann-Whitney test indicates no significant difference in responses).

Some respondents gave the impression that disputes and arguments were almost endemic to relationships with sister companies highlighting internal conflicts as a 'fact of long term life'. In some cases, there was almost an expectation that sister companies should argue. Part of this can be attributed to the rivalry that can exist between group actors which was highlighted in Chapter 9. This can cause business units to take more extreme positions in arguments with other group companies and be more reticent to concede ground in disputes with perceived rivals. The danger here is that relatively minor disagreements may escalate and widen into more serious conflicts, where an initial dispute precipitates more general and more personal conflict that was previously suppressed. A retaliative mentality may begin to characterise interaction between the parties. Such an escalation of conflict was identified by Eccles & White (1988) where business managers seek to involve a corporate centre in business unit disputes. Under these conditions, there are strong incentives for actors to defend criticisms with counter arguments even though the result is conflict.

Respondents highlighted the lack of robust conflict resolution mechanisms within their organisation which meant that disputes are more likely to become protracted and drawn out. We examine the impact of this in the next section. It was suggested that increased conflict was related to the fact that there was 'more scope for argument in intercompany relationships' indicating there are additional factors present in the group environment which give rise to dispute between actors.

"It's almost an expectation that you should argue with sister companies and I would expect a colleague to see that". (Respondent 2).

"I'm absolutely sure that relationships are allowed to get bad because of this invisible glue that's suppose to be holding it together which makes it even worse". (Respondent 6).

"...... you actually get to the point where all you do is argue. You don't try to solve problems. I think that's very valid. That does happen ...... It's an attitude of mind". (Respondent 10).

".... what happens is that situations get blown up out of all proportion and the ongoing relationship is further damaged. And I guess there must have been a lot of that in Tastetec and Millpro over the years". (Respondent 24).

"I must admit, to some extent, on intercompany relationships, a fact of long term life is that there will always be arguments going on with sister companies". (Respondent 34).

10.1.3 Source of conflict in intragroup relationships

In terms of identifying these additional factors, respondents made reference to them through out their interviews. Many have been highlighted in previous chapters, but it is useful to reiterate them in the context of Pondy's three categories of conflict sources.

We have seen that Pondy's 'bargaining model' describes conflict between interest groups who are in competition for scare resources. Conflicts arise where buyers and sellers seek to secure what they perceive to be an equitable share of the benefits of their relationships. In this respect, there is little difference between internal and external relationships, particularly where interaction is governed by voluntary exchange mechanisms, where actors have the freedom to select (or reject) potential trading partners, and negotiate the terms of their exchanges. We have seen in an earlier chapter that in certain circumstances group actors may find it difficult to reach agreement on what constitutes an equitable share of the benefits of an internal relationship because of the added dimension of related ownership and potential rivalry. Therefore in order to avoid what the centre perceives as wasteful or dysfunctional conflict it adopts transfer pricing rules that externally define the value each party receives from its involvement in a relationship. We have demonstrated however that rules may be open to multiple interpretation and may be circumvented or manipulated to the benefit of one party and the detriment of another. Transfer pricing rules designed to reduce conflict may therefore become significant sources of argument and dispute between actors.

A number of respondents in field research openly admitted that they would have little hesitation in manipulating or misrepresenting product costs or selling prices in order to improve their share of the benefits of interaction with sister companies. However when such behaviour is suspected and identified by trading partners, argument and dispute can come to dominate the value of transfers between internal business units. These will become particularly predominant where actors perceive the allocation processes to be unfair and inequitable. Conflicts associated with various transfer pricing systems have been well documented by Eccles & White (1988) and are beyond the scope of this project. Bradach & Eccles (1989) identified similar disagreements over transfer pricing stating these to be a cause of disagreement and acrimony between division managers.

"I can tell you even in Tastetec we had a discussion how you actually falsify the input value in order to create a profit higher than S Base (The management information system) *shows. So already what you have is people seeing that profit allocation is inequitable and therefore finding a way of giving themselves an advantage to correct something they see as unjust".* (Respondent 2).

"Oh you wouldn't believe the blood that was spilt over that .... We're talking about transfer pricing, the problem certainly in the time that I was with the company was not resolved. It was an open issue at the time that I left. The reason was that you had two different companies using two completely separate cost basis and they just could not agree". (Respondent 31).

Resource-based conflict in intragroup relationships arises as a result of opportunistic behaviour of one or both of the parties. We saw in Chapter 9 that an internal seller may use the lock in protection of a full or partial mandate to reduce resources allocated to internal relationships in favour of external partners. On the other hand, internal buyers may demand proportionately more of the resources of an internal supplier than is expected from other suppliers. Disagreements over what each party expects the other to invest in a relationship may cause long standing conflict and dispute. It is worth reiterating that opportunistic behaviour of internal buyers and sellers was identified as a significant cause of conflict amongst group actors by respondents.

Pondy's 'bureaucratic model' is particularly relevant when a corporate centre becomes involved in the relationships between group actors through the application of rules and mandates. We have seen that in certain circumstances internal business units may resent this intrusion especially where they perceive it to be to their detriment. Being made to trade with an inferior group supplier falls into this category. Conflicts may therefore arise along a vertical rather than horizontal direction. It is worth noting that no respondent made reference to a direct and manifested conflict between a business unit and a corporate centre. This is not surprising given the potential risk confronting a business manager who directly challenges the authority of the centre. Under these conditions, conflicts that arise vertically, may express themselves horizontally between related business units rather than between a business unit and a higher authority. Disputes and arguments may be engineered and propagated to avoid or minimise the impact of adverse policies.

"If you manage to keep arguing, nothing ever will change because you'll be so busy arguing, nothing else will get done; and that would be a scenario that I would recognise". (Respondent 3).

Evidence of a planned and deliberate exploitation of conflict by a corporate centre was not evident from field interviews, suggesting that this did not feature in the relationships examined within this project. (Or perhaps that respondents were not conscious of its use as an influencing tactic). Eccles & White (1988) identified that conflict may be fostered by corporate executives to make information available to top management. As a consequence of conflict, product managers may monitor the performance of each other and of the functions that supply them with resources. In doing so, they may make valuable information available to higher level management. When corporate managers are freely supplied with information by lower levels of management, this helps obviate the loss of control associated with hierarchies without interfering with the autonomy of business unit managers. Whilst respondents recognised that conflict was inherently present in the cultures of their organisations, and that certain individuals seemed to thrive on the challenge of argument and debate with sister companies, its deliberate use as an information collection device by a corporate centre did not characterise their intragroup relationships.

The 'systems model' defines conflicts that arise due to a divergence of sub-unit goals between actors who may not be able to reach agreement on a particular activity or course of action. These can arise in the group environment where actors fail to reach agreement over the interpretation of rules and edicts, particularly where they seek to interpret these in terms most favourable to themselves. Actors may therefore disagree over the fundamental basis on which they interact within intragroup relationships. We have seen in Chapter 6 that ambiguity inherent in loosely-worded edicts can result in significant disagreement over their interpretation and meaning.

We can see that the ways actors interpret and react to the imposition of trading and transfer mandates gives rise to these 'additional' sources of conflict associated with intragroup relationships. They represent additional variables that are absent in external relationships for actors to consider and reach agreement on (or potentially argue over), and can fundamentally influence relationships between actors in the group context.

10.2 Conflict resolution in intragroup relationship

10.2.1 Resolving conflicts in dyadic relationships

Having identified some of the sources of conflict associated with intragroup trading, we now go on to examine the mechanisms that may be used in their resolution. A relationship cannot bear continuous conflict amongst its participants unless conflict is consistently regulated and resolved. An organisation's success hinges to a great extent on its ability to set up and operate appropriate mechanisms for dealing with a variety of conflicts (Pondy 1967). Johanson & Mattsson (1987) argue that disagreements have to be handled in the framework of relationships. 'Voice' maybe preferable to 'exit' which might not be easy or attractive. Actors therefore have to develop conflict resolution methods and problem solving routines. If commonly accepted procedures for conflict resolution can be developed, then a system can establish a degree of stability despite the competing self interests of its individual members (Assal 1969).

The perception of conflict by participants in a relationship may have the effect of motivating them to reduce conflict in a number of ways. Minor conflicts generate pressures towards resolution without altering the relationship. But major conflicts may generate pressures to alter the form of the relationship or dissolve it altogether. Actors may seek increased inducements to compensate for the conflict. The effectiveness and appropriateness of conflict resolution techniques depends on the nature of the conflict and an administrator's philosophy of management. (Pondy 1967).

The objective of conflict resolution mechanisms is to prevent conflicts which have reached an awareness level from developing into non co-operative behaviour. Examples of resolution devices include the collective bargaining apparatus of labour/managment disputes or processes of appeal systems for resolving superior-subordinate conflicts. Pondy (1967) notes that transfer pricing systems constitute a form of mechanism for resolving lateral conflicts among partners within a functional relationship. However, the existence of resolution mechanisms and procedures may not be sufficient to prevent conflict from becoming manifest if the parties do not value the relationship or if conflict is strategic in pursuit of sub-unit goals.

In this section we will identify various resolution mechanisms used to regulate conflict between actors within a group. Our objective is to highlight those mechanisms that are particularly appropriate to the group situation that operate along side the 'normal' mechanism buyers and sellers employ to regulate and resolve conflicts in business networks. We will examine three specific issues:

- The extent to which actors have the option of terminating relationships with in-house partners.
- The circumstances under which a corporate centre becomes involved in disputes and disagreement between group buyers and sellers.
- Other options available to business unit managers to regulate conflict within the context of their internal relationships.

10.2.2. Termination of intragroup relationships

Termination of a relationship is an extreme form of conflict resolution, usually employed when other mechanisms have failed to resolve fundamental and intense conflict between actors. The decision to terminate may represent a joint agreement by the parties who are unable to reach a consensus on the way to resolve their differences. A more common event is when one of the parties takes unilateral action to withdraw because it is dissatisfied with the performance or commitment of its counterpart. Thus a buyer may deselect a supplier who it perceives is acting opportunistically and where it has failed to perform against key parameters (e.g. product and service quality). A supplier may decide to withdraw support from a particular customer because it believes its marketing resources are better employed in alternative relationships. Distinction must be made between partial and absolute termination. In the case of the latter, all contact between the parties, including personal interaction, is ceased. A partial termination occurs when products and services are no longer exchanged between the parties but personal contacts continue (although probably at a scaled down level).

Termination is likely to be problematic in intragroup relationships where interaction between parties is governed by mandates locking them together. Internal actors may not be allowed the sanction of termination by a corporate centre where significant synergies for the group are created through their interaction. Even where actors are linked through weaker mandates (encouragement rather than edict), individual parties may still be reticent to partially or fully withdraw from a relationship with an internal counterpart. The consequences of termination were explored in Scenarios 39 and 40. In Scenario 39, respondents were presented with a situation where **'You have become so fed up with arguing with a sister company that you are tempted to cease supplying them'**. A similar predicament was presented in Scenario 40 which proposed that **'Your company is seriously considering delisting a sister company as one of your suppliers. What might your thoughts be?'** Frame 60 was set up to measure respondents' reticence to withdraw from internal relationships. (Frame 60 Termination reticence. Response 30/10. Mentions 102). Statistical analysis of responses indicates that there is divergence of opinion amongst Agrifood respondents, and between other respondents, as to whether termination represents a viable option for internal actors. Whilst the t-test indicates that overall responses are not significantly different from zero, respondents expressed a variety of opinions around the likelihood of terminating relationships with group partners. (Mean scores: Agrifood 0.4, other respondents 0.2. No significant difference recorded in responses between groups).

People expressed reluctance to terminate relationships with internal partners in a number of ways. Some recognised termination as a point that 'neither party dare get to'.

"I don't think I would ever be tempted to cease supplying them". (Respondent 10).

"There is a reluctance in an honest man's mind because you know it should be part of proper group business". (Respondent 31).

"I think there would be a reticence to do that and you'd have to think about it in another dimension than if it were a totally external company, because you would have to think what are the internal ramifications of that. ..... You might be more challenged on the decision to do that by somebody else whereas if it were an external company, they can't challenge you". (Respondent 36).

A number of respondents admitted that they would have ideally delisted internal companies in the past, but recognised an internal pressure to continue to resolve differences. Whilst deselection could be applied as device to threaten a trading counterpart, it's use was seen as ineffective because both parties recognised that its implementation was unlikely because of the signals it would send to other parts of the organisation. Some respondents believed it was a 'duty' to resolve internal conflicts without resorting to extreme measures such as termination. Failure to do so was regarded as a breakdown of management processes within the group.

"I've been to that point (de-selection) and you know that you're not going to not supply them, and they know that you're not going to not supply them as well because neither party dare get to that point". (Respondent 1).

"The pressure on them to keep us as a (internal) supplier was very significant". (Respondent 2).

"We couldn't not supply. It is more difficult. I would feel it is incumbent on us to resolve those difficulties". (Respondent 14).

"I think what normally brings people back from the brink is the fact that's rather high profile stuff. ..... So I think people step back from the brink and try and sort things out". (Respondent 19).

Not all respondents expressed a reservation to de-list internal trading partners. Repeated incidents of service and quality failures were quoted by a number of respondents as justification for pursuing such a course of action. However even in these circumstance most respondents had obvious reservation. People talked about 'moving heaven and earth to sort the problem out' first by giving a trading counterpart extensive warning. Respondents were concerned that they followed 'proper procedures' so they could be sure of their positions when answering to the centre.

"My thought would certainly be well really are we doing the right thing? To make that decision you would have to have tried everything. You'd have to be very very sure of your position". (Respondent 6).

"For this situation to arise in practicalities there would need to be some very negative and very adverse trading relations between the two organisations for this decision to be considered strongly". (Respondent 6).

"I think if you give them enough chances to supply you properly and they haven't responded to your requirements, providing they are not excessive, then I would seriously consider delisting them". (Respondent 13).

When respondents discussed their reactions to the scenarios, two themes were particularly apparent. Firstly, termination of an intragroup relationship was perceived as evoking a strong adverse reaction from the corporate centre. Secondly, as a consequence of this, failure to resolve differences between group actors carried high personal risk to the individuals involved. Frame 61 identified statements where respondents believed that termination of their internal relationships would be met with strong disapproval by the centre. (Frame 61 Centre disapproval. Response 16/6. Mentions 34). The one sample t-test was significantly different from zero. Further analysis indicates that whilst just over half of respondents mentioned this theme in their interviews, when they did so, it was in terms of likely disapproval by the centre. (Identical mean scores of 1.6 were recorded for Agrifood and other respondents).

Respondents described the probable response of the centre to a breakdown in a relationship between internal actors in the following terms:

"The centre would go mad. You just couldn't do it. They wouldn't let you do it". (Respondent 16).

"If the companies know that it is important they're going to have to explain it, because they know that I'm going to come and descend on them and that will make them think about it". (Respondent 26).

"If I was Chief Executive and one division's going to delist another, if it got to that point, I would be seriously upset with both. I'd be knocking heads together". (Respondent 35).

Respondents were especially sensitive to being perceived as incompetent by top management for failing to resolve differences between themselves. Failure to reach agreement was regarded as a sign of immaturity of the managers involved, irrespective of the validity of the original argument. The expectation of business unit managers was that because of their position and status as head of their operating units, they should have the ability to solve their own problems within the framework of existing relationships and without compromising the prosperity of the group.

"I keep using the word fear, but there's a fear/threat that if you are a good manager then you should be able to do this, and to actually admit that you can't come to some consensus starts people above questioning whether you are the right person in that role". (Respondent 1).

In summary, termination of relationships between internal actors may be problematic within a group. A corporate centre may explicitly disallow its operating actors the option of withdrawing from relationships with sister companies where corporate profitability or 'value' is compromised. Even where a centre lays down no official guidelines relating to termination, there are pressures for actors to maintain their internal relationships. Business managers may have concerns about the consequences of their actions on the overall prosperity of the group and regard acts of deselection as an admission of failure on their part and therefore inappropriate. Actors may also view an act of deselection of an internal trading partner as involving personal risk because of the likely adverse response from the centre. They may therefore prefer to continue arguing rather than risk incurring the displeasure and sanction of senior management.

10.2.3 Arbitration of intragroup relationships

When actors have disputes which they are unable to resolve satisfactorily, they may request that a neutral third party is brought into the relationship to arbitrate a solution between them. At one level, the arbitrator may act as a conduit of communication between the parties in the dispute and help facilitate a negotiated settlement through discussion and compromise. On the other hand, an arbiter may seek an impassionate investigation of the grievances of each party and then pronounce judgement in favour of one or the other.

In disputes between companies within a group, an obvious source of arbitration would seem to be the corporate centre as the legitimate and ultimate authority over both operating actors. In theory, it has the positional power to impose judgements over actors to regulate or resolve their disputes. Evidence from the field research however reveals that corporate centres tend to distance themselves from internal arguments and are very reluctant to be drawn into disputes between operating actors.

In Scenario 41 respondents were presented with a situation where **"You are in dispute with a sister company and have asked the centre to intervene, however you find that people at the centre are reluctant to become involved".** Frame 63 was set up to measure responses that supported or rejected the assertion that corporate centres are reluctant to intervene in the relationships of their operating companies. (Frame 63 Centre intervention - Actual. Response 25/9. Mentions 67). Again, the one sample t-test was significantly different from zero. Analysis of responses indicates that whilst both sets of respondents perceived a reluctance for corporate centres to become involved in business unit disputes, this was particularly relevant in Agrifood. (Mean scores: Agrifood respondents 1.3, other respondents 0.8. No statistical difference was recorded between groups).

" ...... there is no forum in which you can bring two trading companies together in order to resolve that, at which the centre is prepared to arbitrate". (Respondent 2).

"Yes I think so. They're reluctant to stick their head above the parapet. I mean that often happens. I mean people at the centre never do anything do they? I mean that's normal comment that you often get. They talk but ..... they run away from conflict". (Respondent 26).

"That's exactly the situation. At the centre of Biotec they will not. You sort your own problem out. They will not try and arbitrate between divisions." (Respondent 36).

"Yes, we would be pretty reluctant to get involved. You just have to sometimes. It depends on the gravity of the situation". (Respondent 37).

In discussing their reactions to the scenario above, respondents highlighted a number of reasons why a corporate centre prefers to occupy a neutral position in disputes between operating companies. Firstly, corporate management may hold the view that it is not its function or prerogative to resolve disputes between internal customers and suppliers. A centre may perceive that its intervention is likely to compromise the accountability and autonomy of its businesses. By involving itself in disputes, the centre may implicitly assume partial ownership of the problems and disagreements that are at the root cause of the conflict. Where a centre's mode of co-ordination is through voluntary mechanisms it is more likely to distance itself from conflicts between actors.

"That would be something that I would recognise where the basic challenge would be 'Look you're the profit making units. You must work this out between yourselves. We can't intervene you've got to sort it out. But we do expect you to sort it out". (Respondent 3).

"One of the excuses given is 'Well of course you're grown up. You trade with each other. It's your relationships to manage not ours'". (Respondent 6).

"I think it's quite natural in that if the centre start to get involved in the operational activities of divisions then one questions where the ownership lies of the output". (Respondent 28).

A number of respondents pointed out that corporate centres are particularly reluctant to intervene in disputes where the outcome is perceived as a zero sum game to the group as a whole. Thus arguments that involve the allocation of benefits between sister companies were seen as particularly wasteful from the centre's point of view because little advantage accrues to the group from the involvement of the centre. Disputes about payment and credit terms between sister companies fall within this category where a creditor in the balance sheet of one business unit is a debtor in another.

"The perspective of the people at the centre is actually this is a complete waste of time and it's a complete zero sum game because I'm skulking about moving profit out of one pocket to the other". (Respondent 17).

The desire by corporate management to be seen to be neutral and impartial in its relationships with its operating companies was also highlighted as a reason for non intervention. A centre may be sensitive to criticisms of supporting one party against another and therefore refrain from placing itself in a potentially compromising situation. Pronouncements in favour of one party automatically influences the centre's relationship with another. The danger to the centre is that an adverse ruling against one of its operating actors may engender feelings of alienation and of being let down, that shapes the atmosphere of future interaction.

"They're reluctant because they probably deal with both the two chief executives or two sales directors or whatever it is directly, by themselves anyway. They know them very well and don't want to take sides. What you will genuinely find is that the two guys will be good in their own areas. Then why crap on either one of them? It would tend to put them off and you have a bigger problem". (Respondent 10).

Finally, a corporate centre may be reticent to be involved in a dispute due to the complexity inherent in many conflict situations. If a disagreement between group actors has reached the level of intensity that necessitates the need of involving the centre, it is likely that more obvious and easily derived solutions are unlikely to be applicable. Conflict may not be based on a single episode but a culmination of many episodes that have arisen in intensity over time. Pondy (1967) notes that once conflicts breakout on some specific issue, then that conflict frequently widens and the initial specific conflict episode precipitates more general and more personal conflicts which has been suppressed in the interest of preserving the stability of the relationship up to that point. Conflict may therefore be characterised by claim and counterclaim between the parties. Eccles and White (1988) identified that profit centre managers have strong incentives for counter argument in disputes with sister companies even though the result is conflict. Under such conditions a corporate centre may have great difficulty in adjudicating between the claims of the various parties.

"They are also reluctant to come involved sometimes because they don't know what it's all about and don't understand it". (Respondent 1).

"Everybody's all for intercompany trade, but when you shout that you've got a problem, they want you to sort out the problem because probably they know the complexities that are involved in it and they are reluctant to give you their help". (Respondent 29).

Having established that corporate centres are reluctant to arbitrate disputes between operating actors we should comment on the validity of a centre adopting this stance in disputes between sister companies. This theme was highlighted in Frame 64 that recorded respondent views on the desirability of involving the centre in disputes. (Frame 64. Centre intervention - desired. Response 23/5. Mentions 75). Statistical results are similar to frame 60 in that whilst the t-test shows no significant difference from zero for overall responses, respondents had divergent opinions on the desirability of involving the centre in their disputes. (Mean scores: Agrifood 0.4, other respondents 0.6. No significant difference recorded between groups).

Those who refuted the desirability of involving the centre perceived the need for arbitration as a 'sign of weakness' or an 'admission of failure' on behalf of operating actors; something to be avoided at all costs. However other respondents highlighted the need for an ultimate authority to oversee disagreements between actors that were regarded as important and significant to the group, especially where both parties had requested the intervention of the centre to assist to facilitate a solution. Under these conditions it was seen as incumbent on the centre to accede to this request. It was also highlighted by a number of respondents that the requirement for the centre to arbitrate between sister companies was reinforced by the fact that actors in internal relationships did not have access to what might be regarded as the ultimate resolution mechanism, appeal to the courts of law. One respondent accounted a dispute with a sister company that would have resulted in some form of legal action had not the parties been connected through common ownership

" .... at the end of the day .... you don't actually have the sanction to sue your sister company. You know it's not going to get to court..... Therefore what is the mechanism to resolve that dispute?" (Respondent 17).

10.2.4 Other resolution mechanisms in intragroup relationships

We have seen that the break-up of a relationship between internal actors is unlikely to be practical either because it is specifically disallowed by the centre, or because business managers may be reluctant to withdraw for reasons of personal risk or group loyalty. We have also seen that arbitration may be more difficult to achieve because the centre is likely to be reticent to involve itself in the disputes of operating actors, and that the latter are unlikely to have recourse to legal mechanisms.

This presents something of a dilemma for business managers because whilst there are more factors to argue over in group relationships, resolution may be more difficult to achieve. At the same time, failure to resolve disputes carries higher personal risks to the individuals managing those relationships. We can therefore conclude that actors have to work harder to regulate and resolve their differences in the group situation.

Under these conditions, actors are likely to operate in an atmosphere of uneasy coexistence, where potential conflicts reside just below the surface of their relationships. Pondy (1967) notes that if conflict is genuinely resolved to the satisfaction of both parties, the basis of more co-operative relationships may be laid. But if conflict is merely suppressed and not resolved, conditions of conflict may be aggravated and develop into more serious forms until they are rectified or until the relationship dissolves.

Given these factors many respondents highlighted the responsibility and increased onus on the heads of business units to take a leading role in regulating and resolving differences with internal trading partners. Business unit managers were seen as particularly important in setting the tone and shaping the atmosphere of relationships with sister companies; more so than in their relationships with external customers or suppliers. In certain instances, relationships between business unit heads were seen as a critical factor in the success of the overall intragroup relationship.

"I see the roles of CEO's (business unit heads) being critical. If they can sit and agree there is a way forward then the inertia can often be overcome. But it's very unlikely to be overcome by someone like me or, even worse, further people down the line". (Respondent 2).

"I think it is the attitude of the Chief Executives of those companies which is key to get the relationship going and sorting out problems as they arise". (Respondent 19).

"At the end of the day the CEO (business unit head) is responsible for everything I suppose that's probably true. They're very influential and I believe the managers often do believe that to be the case. If you look at Tastetec and Coverco. Why is that relationship bad? Well it does start at the top at the end of the day". (Respondent 26).

"I think the highest level of management has a major role to play in ensuring that intercompany trade works correctly. I think it's interesting the further you go down in seniority, the more difficult it is for junior people to make it work and they need a lot of support and they need a lot of networking if you like at the top level to make sure it works properly, which you wouldn't do with an external supplier". (Respondent 30).

"Their influence can be huge". (Respondent 37).

10.3 Conclusion

This chapter has been concerned with the way conflicts arise, and are managed within a group. Our initial starting point was summarised in proposition P7, presented at the beginning of the chapter which we have examined within four of the content frames. Frame 60 was set up to investigate whether actors are reticent to terminate relationships with group partners whilst Frame 61 evaluated whether actors perceive the act of termination would elicit disapproval from the centre and therefore represent personal risk to themselves. Frame 63 explored the likelihood of corporate centres becoming involved in disagreements between operating actors; and finally, Frame 62 examined whether group relationships are characterised by high levels of argument and dispute.

Our analysis has supported the view that the termination of relationships may be more difficult to achieve inside a group. We have seen that whilst a corporate centre may explicitly disallow its operating actors from withdrawing from an internal relationship, the perceived threat of sanctions may be enough to bind actors, even in circumstances of high manifest conflict.

We must however reject the notion that corporate centres adopt a significant role in resolving conflicts between operating actors. Our analysis indicates that corporate management are reluctant to intervene in disputes between business units and tend to refrain from acting as arbiters when disagreements arise in their relationships.

Finally, our analysis suggests that relationships within a group tend to be characterised by higher levels of conflict compared to equivalent intercompany relationships between unrelated actors. There are a number of factors inherent in the group situation that can give rise to arguments and disputes between actors that relate to the influence of a mandate regulating intragroup trading and transfers. This is reinforced by the fact that actors cannot withdraw from their internal relationships, and that the use of traditional conflict resolution mechanisms may not be available to help resolve and settle their disputes.

Chapter 11

Summary and conclusions

11.1 Introduction

This final chapter has four aims:

- Firstly, to summarise the research that has been presented in this thesis.
- Secondly, to bring together the findings of the research into its 'core conclusions'.
- Thirdly, to point to the implications of the research for corporate managers and practitioners involved in the management of intragroup relationships.
- Finally, to suggest possible directions for further research in the area,

11.2 Summary of research

11.2.1 Research aims and propositions

The aim of this research has been to develop a comprehensive understanding of the nature of intragroup relationships. We have been particularly interested in identifying and describing those factors that are associated with the environment of the group that make these relationships distinct and unique. Our objective has been to produce a comprehensive and in-depth analysis by bringing these factors together in the context of a single study.

We have developed a series of propositions that help describe and account for the behaviour of actors involved in relationships within a group. These propositions have drawn on a number of concepts identified in industrial marketing literature as well as theory developed in the areas of economics, organisational behaviour and corporate strategy. These propositions have also been derived from the author's intuitive ideas, as well as the views of practitioners involved in co-ordinating and managing these relationships. Each proposition provides a frame work for the analysis of data covering various themes of intragroup interaction.

These themes concern the following aspects of intragroup relationships:

- The influence of the centre.
- The effectiveness of mandates.
- The influence of other actors inside and outside of the group.
- Information exchange between actors.
- Opportunistic behaviour of actors.
- Rivalry between actors.
- Conflict and conflict resolution.

11.2.2 The relation of the research to previous studies

One of the aims of this research has been to fill a gap in the literature on business relationships by highlighting the importance of interaction between companies in a group. We have seen that whilst academics have recognised the existence of intragroup relationships in the general body of marketing literature, there have been few studies that have taken these relationships as their central theme.

In describing the relationships that form between group companies we have been able to reference a number of concepts and analytical tools in the general literature that help explain and characterise dyadic interaction between internal actors.

The propositions that form the basis of this study were partly developed by applying these concepts to the group situation. The literature review highlighted the importance of thinking about intragroup relationships in the context of industrial networks. It also identified a set of factors (or contingencies) that motivate actors to form and develop commercial relationships which have general applicability to the group context.

11.2.3 Methodology

The propositions indicated the different factors which require investigation in order to understand the nature of intragroup relationships. The study of a wide variety of these factors was accommodated within the methodological design which had to reconcile certain other prerequisites, specifically:

- The requirement to concentrate the research towards one focal organisation to achieve the depth of analysis inherent in a focused case study.

- The need to take into account potential sensitivities of respondents involved in intragroup relationships, and overcome problems of access and misinformation.

- The need to take into account the status of the researcher as a member of the focal organisation under investigation.

- The requirement to orientate the field research to allow respondents to freely express perceptions and beliefs about their involvement in intragroup relationships.

- The need to allow exploration of a wide range of factors associated with intragroup interaction, thereby negating the use of traditional research instruments such as conventional questionnaires.

- The need to investigate responses to specific issues and situations, rather than generalised expectations.

These prerequisites led to the development of a methodology which had two key properties:

- Firstly, data was gathered in the form of tape-recorded responses to a number of hypothetical situations (scenarios). This was found to encourage a full expression of respondents' reactions to issues and situations that they could identify with from current and previous experiences.

- Secondly, the raw data was analysed in the form of content analysis. This allowed the coding and quantification of respondents' statements into a large number of categories. The method allowed the comparison between respondents in the focal organisation with those in other organisations referenced in this research. It also allowed a particular score to be traced back to the precise statement and context which produced the response. This provided a fuller and more accurate interpretation of scores.

11.3 Summary of results and conclusions

11.3.1 Introduction

In this section, the results of the research are summarised according to the layout adopted in the thesis presentation. An attempt is then made to synthesise these results into overall conclusions.

11.3.2 Influence of the centre

Corporate centres have a profound influence on the relationships between operating companies within a group. A key task for multi-divisional corporations is to co-ordinate activities between the various business units that comprise the group. The challenge for corporate management is to define how an organisation can create a whole that is greater than the sum of its parts. In achieving this, a centre provides a rationale for existence of the group as a viable economic entity. Co-ordination therefore requires bringing into a relationship many disparate activities of organisational actors.

Co-ordination is achieved within a group by regulating two major elements of the interaction process:

- Intragroup trading policies prescribe the degree of freedom internal business units are given in selecting and developing relationships with partners internal and external to the group.

- Intragroup transfer policies define the mechanisms by which transactions are carried out within the group, particularly relating to the pricing of goods and services transferred between actors.

The research indicates that the process of co-ordination can be achieved in a number of ways.

- Mandated policies explicitly define that certain activities or events will occur. These are operationalised in the form of rules or edicts that enforce co-operation between actors and lock them together. Mandated policies reflect a hierarchical form of co-ordination.

- Voluntary policies are consciously designed not to influence the trading and transfer activities of individual actors who are left to formulate these for themselves. Voluntary policies express the network form of co-ordination where individual actors engage in reciprocal and mutually supportive actions to further their individual and joint interests.

- Encouraged policies seek to combine both network and hierarchical mechanisms to co-ordinate internal relationships. In these cases, corporate centres signal to internal operating actors that certain activities or events are appropriate but refrain from mandating that these will occur, leaving this to be decided by individual business units.

The mechanisms a corporate centre adopts to achieve co-ordination within a group depends on its perception of organisational benefits deriving from:

- Synergies that arise from the interaction between various business units. (e.g. joint research, exclusive supply, transaction cost reduction).

- Enhanced performance gained by promoting the freedom, independence and autonomy of those business units.

In circumstances where a group values the autonomy of its business units above that of the potential synergy created by their interaction, then voluntary mechanisms are likely to predominate within intragroup trading and transfer strategies. When synergies created by the interaction between business units are perceived to be significant, then mandated mechanisms are likely to be dominant.

The field research has indicated that whilst the encouraged form of trading policy is predominant in the groups researched in this study, different forms of co-ordination strategy may operate within a single corporation. Whilst a particular form may represent the basis of a group's trading and transfer strategy, certain relationships may be co-ordinated by alternative mechanisms, depending on individual circumstances. This is likely to occur because groups may have a number of 'centres' that are involved in co-ordinating relationships between individual business units apart from the main corporate centre or head office.

We can conclude that the presence and influence of a corporate centre is one of the fundamental factors that distinguishes intragroup relationships from other forms of dyadic interaction. It has a profound influence in shaping the expectations of actors and therefore their perceptions of other actors within the group. A corporate centre sets the scene and context within which intragroup interaction takes place. Its policies directly and indirectly influence the atmosphere of individual relationships in terms of the levels of co-operation, conflict and competition contained within them.

Our first proposition (P1), has therefore been supported by this study in that interaction between buyers and sellers in a group is influenced by a central actor in terms of the nature and extent to which it mandates interaction between them.

11.3.3. Rule effectiveness in intragroup relationships

We have demonstrated that a corporate centre may be directly involved in relationships between operating actors by mandating or encouraging internal interaction. Mandates are enacted through formal rules that enforce co-operation and lock actors together. Evidence from this research indicates that the imposition of rules over operating actors is not straight forward, particularly where group trading partners are reluctant to develop close relationships. Under these circumstances, certain preconditions must be met for these rules to be effective.

Firstly, operating actors must recognise and accept the authority of the centre to formulate and impose rules within the group environment. The research indicates that whilst the authority of the centre is acknowledged by operating actors, its freedom to impose trading and transfer policies is bounded by certain norms and expectations that limit its ability to arbitrarily impose mandates, without at least seeking some agreement

from its operating actors. Where actors dispute the validity of trading and transfer mandates, they are more likely to engage in activities to minimise their impact.
A second prerequisite relates to the acceptance and approval of rules by operating actors. The essence of rule compliance rests on the belief that there are specific imperatives or principles which should be obeyed by all. If there is doubt about what the imperative is, or ambiguity around its interpretation, then the legitimacy basis of compliance is undermined. Actors cease to follow rules simply because they do not adhere to the fundamental principles that underlie them.

A third condition relates to the clarity of rule substance. The research indicates that ambiguity in rule definition can give rise to multiple interpretation of meaning that actors may exploit to further their individual interests. Differences in interpretation can be used by actors to impede the process of interaction and reduce the level of co-operation. Rule clarity may also be undermined by other rule sets that simultaneously exert influences on the behaviour of actors. Competing rule systems may give rise to ambiguities when interpreted together. Execution may require compromises and trade offs which undermine rule effectiveness.

Finally, the research has demonstrated that to maintain acceptance of legitimate authority, there has to be some form of reinforcement in the form of penalties for violation of the rules. Where there is no enforcement by authorities and no sanctions for violation, trading and transfer rules may become nullified and ineffective. The research suggest that whilst sanctions may not be presented as codified frameworks or formalised punishments, the threat of their imposition may shape the expectations of actors in the way they relate towards each other.

Our analysis has also highlighted that whilst a corporate centre may mandate interaction between operating actors for the benefit of the group, operating actors may see these as compromising their individual positions and may therefore pursue actions to minimise or neutralise their impact. One way to achieve this is to use direct and indirect lobbying tactics that seek to change the conditions of rules and mandates. We have presented evidence that shows how actors can erect barriers that inhibit the imposition of rules where they do not perceive these to be in their interests.

The research challenges the notion of a corporate group as a harmonious set of actors intent on advancing the position of the overall enterprise above all other considerations. Operating actors may face difficult dilemmas in reconciling their interests with those of the group as a whole. Interaction with other group companies may mean that actors have to make sacrifices and forego potential benefits that would be available from developing relationships with external partners. When operating actors are reluctant to make these sacrifices then mandated relationships are likely to become problematic for all parties. Effective co-ordination under these circumstances requires the development of effective rule systems that integrate the qualities of authority, clarity and reinforcement highlighted above.

Our analysis has supported the view that certain preconditions, as outlined in part A of Proposition P2, need to be in operation for rules to be exercised effectively over operating actors. We predict that intragroup relationships are likely to be problematic if these conditions are not met. Part B of Proposition P2 predicts that actors will challenge the existence of rules they perceive not to be in their interests. Our research has demonstrated how actors can erect barriers that inhibit the imposition of these rules over their activities.

11.3.4 External influences in intragroup relationships

Whilst intragroup relationships can be viewed at a basic level in terms of a triadic structure, in reality they form part of a much wider network of relationships, both within, and outside of the boundaries of the corporate organisation. Group actors therefore operate in networks where they have a series of direct and indirect relationships with other parties. Our research has shown that hierarchical factors associated with ownership cannot be considered in isolation of network influences and visa versa. A corporate centre that grants its operating companies 'network freedom' implied in voluntary forms of co-ordination must recognise that direct and indirect associations with other group actors, resulting from common ownership, may limit opportunities for a focal actor.

The research has demonstrated that relationships between group actors are conditioned by their interaction with alternative buyers and sellers outside of the group. Internal actors are particularly sensitive in a situation where an internal trading partner develops relationships with other partners that are competitors to companies inside the group. The level of mistrust between internal actors is likely to be high where internal group companies are perceived to have stronger relationships, or give a favoured status to external trading partners.

We have also demonstrated that relationships between internal actors will indirectly condition their relationships with other actors external to the group. Trust is more difficult to develop in these circumstances. Therefore internal companies need to demonstrate increased commitment to an external partner or go to greater lengths to prove confidentiality and integrity. Competitive actors are likely to exploit this uncertainty and seek to undermine the position of the internal actor. In these circumstances, group actors may feel disadvantaged by belonging to the same corporate group, and system of ownership as their suppliers or customers. Group suppliers may perceive this as a barrier to their marketplace, effectively inhibiting their development with more attractive partners. Group buyers may perceive that they are isolated from superior technology of their suppliers. Both sets of actors may perceive their positions are disadvantaged through circumstances beyond their control, and through no fault of their own, resulting in resentment and antagonism towards sister companies.

We conclude that these factors, either individually or in combination, add significant elements of complexity and uncertainty to managing relationships simultaneously with both internal and external trading partners. The heightened potential for mistrust to develop increases the fragility and vulnerability of these relationships representing an additional burden on the parties involved.

Our analysis has supported the notion put forward in Proposition P3 that interaction between operating companies within an intragroup triad is conditioned by relationships with other companies inside the group; and also direct and indirect relationships with customers and suppliers outside of the group. We have demonstrated that relationships between operating actors will condition potential interaction with alternative buyers and sellers. We have also shown that relationships with alternative buyers and sellers conditions interaction between operating actors.

11.3.5 Information flow between actors in intragroup relationships

Information transfer lies at the heart of exchange processes in business relationships. The distance between buyers and sellers represents the sum of factors that prevents the flow of information between actors. Distance is an indicator of closeness between actors. The closer actors are to each other, the greater the information exchange and the smaller the distance.

We have seen that the level of information exchange between actors in a group depends on the degree of social and cultural distance between them. Social distance is the extent to which both the individuals and organisations in relationships are familiar with each other through membership of the group and having a common parent. Cultural distance represents the degree to which the norms, values and working methods between group actors are influenced by the existence of a group culture.

Information flow is influenced by the value systems of each actor in the intragroup triad. A corporate centre's attitude to information exchange will be conditioned by its approach to intragroup trading. It may consciously seek to shape the values of individual operating actors to enhance the flow. However it may also adopt a neutral or negative stance which can decrease or retard the transfer of information between actors. Operating actors may face difficult dilemmas in managing information exchange in intragroup relationships. On the one hand, they are influenced by the wishes of the centre which may favour the exchange of information in the wider interests of the group. But operating actors may value information in terms of advancing their own positions and may be reticent to impart information to other group companies, even when this contradicts with the express wishes of the centre.

Group environmental factors can reduce social distance between actors by increasing the breadth of interaction between them. A corporate centre may physically bring actors closer together in forums and groups that are outside the day to day settings of their relationships. It may encourage the exchange of personnel between companies as a means of transferring knowledge and building personal bonds. Informal information systems such as group grapevines and personal networks can also represent important information sources for group companies.

We conclude that the process of information exchange is more difficult to manage and control within a group simply because of the presence of additional communication channels that can disseminate information quickly across the group. The presence of corporate centres (and other 'centres') represent additional communication nodes that significantly influence the exchange process, which operating actors may find difficult to control.

We must recognise that Proposition P4 may not apply in all circumstances. We conclude that the group environment is likely to increase the level of information each party has about the other, and the breadth of interaction between them, where the social and cultural distance between actors is low. However, where social and cultural distance between group actors is high, the group environment is likely to inhibit the level of information exchange between actors, diminishing their knowledge of each other and potentially retarding their level of interaction.

11.3.6 Trust between actors in intragroup relationships

Trust is a significant factor influencing the formation, development and maintenance of relationships between actors in business networks. Co-operation between actors requires a minimum level of trust for exchange processes to operate.

Opportunism is linked to trust in that when participants in business relationships trust, they are less likely to indulge in opportunistic activities at the expense of trading partners. Our research has indicated that when group actors are locked together by an internal mandate, this increases the likelihood of each party in the relationship acting opportunistically towards the other. In the case of group sellers, this is manifest in behaviour such as compromising the level of service or product quality given to internal customers or generally taking internal customers for granted and being complacent. Our study has demonstrated that internal customers may not be afforded the status and standing that is given to external customers.

We have also shown that opportunism can work in the other direction. Group buyers may take advantage of the position of group suppliers by demanding higher levels of service or advantageous prices. Our research suggests that internal buyers are less tolerant and generally more demanding of group suppliers.

The expectation of internal partners acting opportunistically towards each other has a number of consequences for the development of relationships. Firstly, trust is more difficult to achieve between the parties in circumstances where they are suspicious of each others' motives. Internal buyers are likely to seek external partners to benchmark the performance of group suppliers. They are likely to be reticent to exclusively source from within side the group. Internal suppliers may have to demonstrate high levels of commitment towards internal partners to overcome the suspicion of opportunism. This is likely to involve them in incurring additional costs to prove their trustworthiness and credibility to over come potential prejudices associated with intragroup trading. The potential for opportunistic behaviour to occur, and the need to guard against it, potentially offsets transaction cost savings associated with common ownership.

Our analysis has supported the main points of Proposition P5 in that where a corporate centre mandates interaction between operating actors, this may affect the nature of intragroup relationships. One of the implications of this is that actors may regard the terms of a mandate as something that can be exploited, to gain an advantage over a group trading partner. The propensity for actors to act opportunistically is heightened in the group situation and will therefore influence the level of trust between them.

Trust is also difficult to achieve in intragroup relationships because actors may consider they are rivals. It is hard to trust a trading partner who is also perceived as a competitor. Corporate centres may deliberately promote rivalry between actors by making public and direct comparisons between their performances. This is done to motivate them to higher levels of achievement or to act as a warning to under performing actors.

When trading partners perceive they are rivals, this can have a significant influence on the way they behave towards each other. We have seen that rivalry may lead players to pursue one-upmanship strategies to further their positions at the expense of other group actors. This can increase the level of exposure of operating actors to the corporate centre. Internal actors may therefore attribute a higher level of risk in their interaction with other group companies. They may feel more exposed and vulnerable to the actions of internal trading partners. The potential for the group environment to enhance competitive pressures between group actors is another factor that makes trust more difficult to develop in intragroup relationships.

Our analysis generally supports the main argument put forward in Proposition P6 that trust between operating actors in intragroup relationships is influenced by the presence and activities of the central actor. We have demonstrated how parties in an intragroup relationships may regard themselves as competitors for resources controlled by the centre. This is likely to make them suspicious of a trading partner who they see as a rival. We have also seen that actors may perceive their competence can be evaluated by the centre through their involvement in intragroup relationships. Finally, we have shown how these factors can influence the perception of risk actors attribute to their involvement in intragroup relationships.

11.3.7 Conflict and conflict resolution

Actors in business relationships have both shared and contradictory interests. Where contradictory interests are not resolved satisfactorily, the resultant outcome is conflict. Conflict therefore represents an inherent component of business relationships.
We have identified that conflicts can arise in intragroup relationships that are specifically related to the group situation. We have seen that group actors may find it difficult to reach agreement on what constitutes an equitable share of the benefits of their relationships because of the added dimensions of ownership and rivalry. Transfer pricing rules that are designed to overcome this issue may themselves become significant points of argument and dispute, particularly where they are open to multiple interpretation or perceived to be manipulated to the benefit of one of the parties. Opportunistic behaviour also represents an important source of conflict in intragroup relationships. Disagreement over what each party expects the other to invest in a relationship may cause long-standing disagreements between actors.

Conflicts arise in intragroup relationships when there is a divergence of goals between actors who may not be able to reach agreement on a particular activity or course of action. Actors may disagree on the fundamental basis on which they interact within intragroup relationships. Ambiguity, inherent in loosely worded rules and edicts can result in significant disagreements over their interpretation and meaning. The way actors interpret and react to the imposition of trading and transfer mandates thus give rise to additional sources of conflict that are absent in dyadic interaction between external actors.

Our analysis suggests that relationships within a group tend to be characterised by higher levels of conflict than that associated with interaction between unrelated actors. This is reinforced by the fact that in certain circumstances, actors cannot withdraw from their relationships and that the use of traditional conflict resolution mechanisms may not be available. The research has supported the view that termination of an intragroup relationship may be more difficult to achieve inside a group. We have seen that whilst a corporate centre may explicitly disallow its operating actors from withdrawing from their relationships, the perceived threat of sanctions may be enough to bind actors together, even in circumstance of high manifest conflict.

Our analysis has generally supported the main statements put forward in Proposition P7. We can conclude that the group situation is likely to heighten the level of conflict between actors but at the same time, make conflict more difficult to resolve. We have highlighted the difficulties and risks involved in terminating intragroup relationships. However we challenge the role of the centre as an arbiter in disputes between group actors and note the reticence of corporate centres to be involved in internal conflicts between operating companies.

11.4 Core conclusions

Having presented a summary of the detailed results and findings of this research, these are now brought together in the following core conclusions. These necessarily involve certain simplifications of the findings but demonstrate the main outcome of the research.

We began this thesis by suggesting that the motivation of actors to form and develop business relationships is based on a multiple of factors or contingencies. We saw that these could broadly be classified under the headings of: necessity, reciprocity, asymmetry, stability, efficiency and legitimacy. By understanding the influence of each factor and its interaction with others, we have a method of characterising and explaining the behaviour of companies. We also suggested that a key to understanding intragroup relationships is to recognise whether they are characterised by a common profile of contingencies that make them unique and different from other forms of business relationship. This potentially provides a useful reference by which to compare and contrast intragroup interaction with other forms of relationships, particularly intercompany relationships between autonomous actors.

We conclude that there is no one set of factors that defines an intragroup relationship.

We have seen that whilst the contingency of necessity, expressed in the form of mandated rules may feature strongly in some group relationships, in other cases, interaction may be driven by voluntary considerations in terms of partner selection and development. In certain circumstances actors may bound together by external forces that direct them to co-operate with other internal companies. In other circumstances, actors may be given the relative freedom to manage their own affairs and develop their own relationships with internal and external partners.

Similar considerations apply to the contingency of efficiency. We have seen that group actors may develop relationships because of some overall corporate benefit that derives from the synergy of their interaction. (e.g. the avoidance of transaction costs). However we have also demonstrated that in other circumstances, corporate groups are happy to forego the benefits of synergy and efficiency in favour of the autonomy and accountability of their individual businesses.

We have also shown that certain group relationships may emphasise the contingency of reciprocity where actors come together to co-operate for the good of the group because it is believed to be the right and desirable thing to do. However we have also demonstrated that in other circumstances group actors may be driven by self interest and will only co-operate with other group companies where they perceive it to be to their advantage. They may therefore seek to actively avoid dealing with other group companies, particularly where alternative trading partners are perceived to be more attractive.

Finally, we recognise that whilst stability may characterise certain relationships in terms of the sequential development of trust created between the parties, in other circumstances stability may be created by an external force binding actors together even where the level of trust between them is low. Stability can be created in intragroup relationships in different ways utilising diverse mechanisms.

Intragroup relationships can therefore take many forms. In some instances they may reflect the types of relationship developed between external actors outside of a group. In other circumstances they may reflect relationships developed between sub units within a hierarchy. Our research has shown that this diversity can occur in different relationships within the same corporate organisation.

We can therefore say that whilst intragroup relationships may tend towards being mandated, or tend towards being voluntary there can be significant variation in between in terms of how and why group actors interact with each other.

Our second main conclusion relates to the way in which corporate groups are organised and co-ordinated.

We conclude that corporate groups are co-ordinated by a combination of authority and network-type mechanisms that define the fundamental characteristics of relationships between internal actors.

The co-ordination of large corporate groups is a complex task. As the range of actors expand, co-ordination becomes increasingly more difficult to achieve. We have highlighted in a number of sections in this thesis the nature of the role a corporate centres plays in co-ordinating relationships between internal business units. The research has indicated that co-ordination can be achieved in a number of ways. Mandated trading and transfer policies express hierarchical forms of co-ordination that are operationalised in the form of rules and edicts enforced over operating actors. Voluntary policies reflect network forms of co-ordination where actors are given the responsibility of defining the terms of their relationships between themselves. Encouraged policies reflect both network and hierarchical influences where corporate centres signal the desirability of relationships between actors but refrain from mandating their existence. We have seen that whilst corporate centres may mandate trading between internal business units, they may be reluctant to be involved in the subsequent development of the relationship created by the mandate, leaving this to the parties to work out for themselves. Relationships between business units are therefore a function of their position within a hierarchy and their position in a network.

Traditional writers have long pointed to the use of authority and price as alternative mechanisms for allocating resources within groups. Eccles & White (1988) highlight that transactions, whether inter- or intra-firm, can be evaluated in terms of the extent to which they combine both of these mechanisms. McGuinness (1996) in reviewing the works of Oliver Williamson notes that 'real world firms', are controlled by a blend of authority and market-like mechanisms. Bradach & Eccles (1989) contend that the sharp delineation of markets and hierarchies has given away to the widely accepted recognition that a myriad of organisational forms exist along with markets and hierarchies.

The traditional view of the multidivisional form of organisation is to regard it as a hierarchical, centre-periphery structure that is controlled and co-ordinated by a central headquarters. The use of authority-type mechanisms was strongly in evidence from the organisations reviewed in this study. We have shown however that authority may be distributed in a variety of 'centres' located across the organisation that influence the relationships of actors.

The description of corporate groups as market-like structures is more difficult to accept. The concept of the market, conjures up the notion of minimal bargaining or negotiation between group actors, little mutual adjustment and few long term recurrent relationships. Price provides all the necessary information about market conditions where each transaction is essentially considered as a single, one off, event. This study reveals that a more appropriate paradigm to describe the nature of multidivisional corporations is to regard them as sets of interconnected exchange relationships that are characteristic of industrial networks. This is difficult to reconcile with a system of straightforward market contracting between business units primarily based on price competition.

Corporate groups exhibit many of the traits of industrial networks. We recognise the existence of direct economic exchanges between group actors and the development of economic bonds between them. We can also see that non economic exchanges may be important which are primarily of a social or informational nature.

Networks exist within organisations as well as between organisations. A corporate group may be considered as a local 'net' within a wider industrial network where the boundaries of the net are defined by the ownership system of the company. Within a group, there always exists some path of interaction that connects any two firms because ultimately all actors are connected through the corporate centre. Intragroup actors may have close or distant relationships depending on their positions within the network. Network processes rather than market mechanisms more aptly describe the nature of multidivisional organisations.

Our third conclusion centres on the relationship between a group's ownership system and the requirements of individual business units.

We conclude that tensions arise in intragroup relationships where the needs of the group's ownership system contradict with those of the network requirements of individual business units.

We have shown that any unit in a multidivisional corporation is subject to the influences of two systems: firstly to an ownership system and secondly to a business network system in which it operates. We have seen that within the group environment there may be more than one 'owner' as corporate groups may be considered as multi-centred structures that exert direct and indirect influences over individual business units.

We have demonstrated how the needs of an ownership system may not be consistent with those of an individual unit's network system. An example of this is occurs when internal actors develop strong business relationships with network partners outside of the group in preference to relationships with internal actors. Where corporate centres seek to break these external relationships and enforce internal trading against the wishes of individual actors the resultant intragroup relationships will be problematic for all parties. This is likely to be accentuated if there is a strong culture of autonomy and individuality between business units.

Our research has demonstrated that tensions in intragroup relationships can manifest themselves in a number of ways. We predict that unless these tensions are routinely managed, conflict will increasingly dominate the atmosphere of relationships which may be difficult to resolve when the parties are locked together, and a corporate centre is reluctant to be involved in its resolution. We also predict that actors are more likely to take advantage of trading partners and act opportunistically in their relationships thereby heightening the level of mistrust between them. Under these circumstances, actors will be more reluctant to develop 'open' relationships with internal partners and seek to increase 'distance' between them by concealing information, particularly interaction with other trading partners.

Tensions may therefore be created between actors that are difficult to resolve in practice. In these circumstances actors must learn to live in an 'uneasy coexistence' with their trading partners and develop measures to compensate for the patterns of behaviour identified above.

Our fourth conclusions relates to the effectiveness of mandates in creating stable relationships between actors in a group. Our research has demonstrated that the imposition of mandates on reluctant parties to a trading relationship will profoundly influence the behaviour of actors in the way they react to each other and towards the corporate centre.

We therefore conclude that the imposition of a trading mandate over operating actors is not enough in itself to develop productive intragroup relationships between them.

Previous writers have demonstrated that one of the preconditions for the existence of stable inter firm relationships is the development of a 'mutual orientation' between the parties. Firms are motivated to interact with each other and expect others to do so. One of the elements of the process of mutual orientation is the development of certain bonds. A bond suggests a measure of tying where firms are not entirely free to dissolve these bonds at will. Strong bonds imply the existence of more stable relationships, whilst weakly bonded relationships are likely to be more volatile.

Business relationships comprise different types of bonds. Economic bonds form the underlying rationale for many relationships where firms invest in each other to gain access to each others' resources. However the existence of non economic bonds are not insignificant. Social bonds develop through social exchange processes which may start with minor transactions and build up over time as the parties gradually prove their trustworthiness. Social relationships may extend beyond the individual firm through the numerous individual social contacts of its people and become significant binding forces.

Formal bonds may be expressed in contractual arrangements between parties or in more general forms of agreement including ownership. Easton notes that formal bonds may be highly visible but may be less binding then they appear. (Easton 1992). This suggests that formal mandates on their own may be insufficient and, other elements of the bonding process need to be present, for close intrafirm relationships to develop.

We conclude from the research that whilst a corporate centre can impose formal bonds between operating actors, this is not enough on its own to develop close trading relationships between them. The motivation of the operating actors is a vital factor in developing more informal ties that build relationships over a period of time. Where the motivation to develop close relationships is inhibited in one or both of the parties, the resultant relationships are less likely to be productive simply because the development of more informal bonding processes (particularly social and informational) will be significantly impeded. The situation is akin to an arranged marriage between reluctant parties. Formal bonds cannot enforce informal ties between actors. Centralised authority cannot substitute for actor desire in developing close relationships. Whilst a mandate may seek to catalyse a bond between actors it can never provide the bond itself. Stable intrafirm relationships do not immediately come into existence because a corporate centre deems them to be so.

Our fifth conclusion relates to the level of trust that is associated with intragroup interaction.

We conclude that trust is difficult to develop and sustain in intragroup relationships.

The issue of trust has been well highlighted throughout the research findings and in the summary presented earlier in this chapter and will not be considered in detail again. We emphasise the point however that trust may be difficult to establish both within, and outside of, the group.

The research has shown that an association between internal trading partners conditions their relationships with actors outside of the group. These are less likely to trust a supplier or customer who is a member of the same group as one of their competitors. They may perceive that the risk of dealing with a group actor is unacceptably high, fearing that confidential information will be passed to the internal competitor. In these circumstances they are more likely be reluctant to develop close working relationships.

We have also demonstrated that trust is difficult to develop with internal trading partners because of the potential for actors to be opportunistic in their relationships with one another. The lock in effect of a mandate may motivate actors to behave differently towards each other and attempt to take advantage over internal partners. We have seen that trust is difficult to develop where group trading partners perceive they are rivals. They may attribute higher personal risks in dealing with other group companies because of the exposure this gives them to the central actor.

The implications of these factors is that actors may have to work harder in proving their reliance as a credible and trustworthy suppliers/customers, again involving increased effort and commitment. Problems associated with developing and maintaining trust represent one of the reasons why managers may have a preference for relationships with external unrelated partners.

Our next main conclusion relates to the complexity and ambiguity that seems to be inherent in managing intragroup relationships. The research leads us to the conclusion that:

Managers find it difficult to manage in a situation that has some of the characteristics of a network and hierarchy, at the same time.

Corporate groups may attempt to co-ordinate activities between various business units using a combination of hierarchical and network influences. We have seen that this can occur when trading between units is encouraged rather than mandated. Under these circumstances, operating actors may have to simultaneously reconcile the requirements of each system of governance, involving trade offs and compromises between each. This is likely to lead to ambiguity and uncertainty in their relationships.

We have seen that co-ordination in a hierarchy is achieved through conscious organisation where top down control is overtly exercised in the form of fixed rules and penalties for non conformance. Clear lines of authority are designed to reduce arbitrariness in decision making and improve consistency. Bureaucratic control reduces the discretion given to decision takers. There is clear reference upwards for clarification of decisions. Survival in such a system means adopting to organisational norms and ethics. In essence, effort is directed towards advancing the organisation as a totality. The whole is seen as more important than the individual parts.

We can see that managers operating in such an environment are driven by clearly defined and well articulated rules in the from of organisational policies that are formulated from the corporate centre. Penalties are clearly understood for non conformance and actors can reference decisions upwards for further explanation and clarification. Hierarchy therefore shapes the expectations of individual operating actors by clearly defining priorities and acceptable patterns of behaviour

Managerial emphasis in a network stresses different consideration. Networks tend to emphasise flatter organisational forms where informal relationships develop between essentially equal parties. Networks exist within the intricacies of social relations where the formation and sustaining of trust is prime activity for all actors. Policies are defined informally between the parties themselves rather than being centrally imposed. Actors have a wider discretion and freedom in defining their future destinies with few centrally defined constraints. They have greater accountability for their actions and decisions. The prosperity of the individual unit is the prime consideration of its management.

We can see that in intragroup relationships elements of each governance system can coexist within the same organisation. These can combine to significantly influence the atmosphere of intragroup relationships in terms of levels of co-operation, competition and conflict exhibited within them. For example, actors co-operate in intragroup relationships because they have to, should do or because they perceive it in their interest to do so. The difficulty that managers may face is that whilst they may be directed or encouraged to co-operate with certain internal trading partners (the hierarchical dimension), they may also be left to individually negotiate their proportion of the economic value that may accrue from the outcome of that co-operation (the network dimension). Actors may be significantly dissatisfied with the outcome where they perceive there are more attractive trading partners outside of the group, to whom they are denied access.

Similarly in terms of competition, whilst actors may be seen to compete for resources within their relationships they may also perceive themselves to be rivals for resources within the same hierarchy. Managers may be encouraged to co-operate with partners that they perceive as significant competitors in forums outside of their trading relationships. We have seen that this can cause managers dilemmas of how much to trust a trading partner that is considered a rival. Competition in intragroup relationship derives not only from a position within a business network but also from the ownership system of the group.

Finally, whilst conflict can arise because actors have opposing objectives within their trading relationships, they may also argue over factors that relate to their position and roles within a hierarchy. We have seen that actors may argue over the interpretation of rules and mandates detailing how they interact with other group companies. This can cause long-standing arguments between actors, particularly where a corporate centre is reluctant to intervene to manage or resolve the resultant conflict. We have shown that whilst actors may be directed to co-operate with other group companies they may not have access to traditional conflict resolution mechanisms that are commonly employed within networks. This can make the management of conflict significantly more difficult in intragroup relationships. We can therefore see that the level of conflict in internal relationships is similarly an outcome of the influence of a unit's network system and also its ownership system.

The intragroup environment can therefore be seen to possess a network dimension and a hierarchical dimension. These dimensions may give rise to multiple interpretation of situations, events or circumstances that make the management of the resultant relationships ambiguous, complex and involved. Managers may have to continuously and subconsciously switch mind sets between these dimensions. They find it difficult to reconcile the needs of the group with their individual interests, giving rise to divided loyalties. Many respondents recognised and highlighted complexity associated with this. They spoke of the environment as being 'more political' with 'more things to consider' and 'no clear dividing line'. 'Conflicts of interest' were highlighted that were not perceived to exist in external relationships. Actors have to continuously balance their individual needs against those of the overall group as a whole.

Many respondents highlighted that their internal relationships were inordinately time consuming because of this. Debates over internal relationships seem to assume far greater significance than in other relationships. Respondents identified a certain irony in this because whilst many believed that internal relationships with other group companies should, in theory, be easier to manage because of the bond of common parentage, in practice they recognised that the opposite seems to occur. For some respondents this has created disappointment and a frustration with the group trading situation. It is one of the reasons why some managers seem to prefer the relative simplicity and lack of ambiguity associated with intercompany relationships with external partners.

"The only thing I would say to you is that everybody I speak to in industry, all of them have exactly the same problems. It is harder to deal with a sister company than it is with an external resource. Every senior manager I've spoken to in major businesses, when you ask them about sister trading, intercompany trading, they always say it's difficult". (Respondent 16).

The overall view from the research, gained from talking to managers involved in intragroup relationships, is that they either prefer clear top down direction from a corporate centre of how they should manage trading relationships with internal partners, or to be left alone to develop their relationships as they see fit, using their own evaluation and judgement. Anything falling between these options was seen as potentially causing confusion, ambiguity and grounds for misunderstanding and disagreement that were likely to undermine the long term success of intragroup trading.

This finding has important implications for the way corporate centres should seek to co-ordinate activities between operating actors in a group.

A significant decision for corporate managers is to determine what mechanisms to employ to co-ordinate activities of individual operating companies. We have shown that the outcome of this decision can fundamentally affect the behaviour of operating actors in they way they form and develop intragroup relationships. Such influence can be direct or indirect, planned or unplanned, both positive and negative.

We conclude that intragroup relationships formed out of network processes where actors select their trading partners and assume responsibility for the development of their relationships according to their requirements, are more likely to result in productive relationships for all parties within the triad.

We use the term 'productivity' in this context in terms of satisfying the objectives of the parties. We recognise that individual actors may have different expectations of their relationships with other actors (both internal and external) and may expect diverse range of benefits to accrue from their interaction. A buying actor may see its relationship with a selling actor as a means of accessing important new technology. Conversely, a selling actor may see its association with a buying actor as a means of enhancing its credibility where the latter is a leader in its market sector. A central actor is likely to be concerned with the synergy to the group that might result from the interaction of the buyer and seller. We contend that these objectives are more likely to be realised where actors are given the responsibility for developing their own relationships rather having them enforced upon them. We therefore argue for minimum intervention by a corporate centre in the relationships between internal actors and advocate that a centre should leave the management and development of intragroup relationships to the individual operating actors. In these circumstances, a corporate centre should:

- Refrain from exerting direct or indirect influence over operating actors' choice of trading partners.
- Refrain from influencing interaction patterns between actors.
- Refrain from becoming involved in disputes and conflicts.
- Allow actors to manage the flow of information between them.

- Measure and reward actors on the merits of their individual activities.

We have to recognise in practice however that it may be difficult for a corporate centre to 'sit back' and leave these decisions to the individual parties. Involvement of the centre with both operating actors potentially places it in a position to identify synergies that could arise through the process of their interaction. We have identified that synergies can be realised through the exchange of information and know-how between operating actors. This may have an important advantage of keeping proprietary technology within the corporation. Synergies may simply accrue to the group where in house transfers of goods and services maximise profitability for the supplying actor. This is likely to occur where there is little difference between internal and external suppliers in terms of the technical performance of products and their associated service and quality parameters. Finally, synergies arise where closer co-ordination between buyer and seller results in lower transaction costs for the group.

A corporate centre is more likely to intervene in intragroup relationships where it perceives that these synergies are not being realised. This may happen for a number of reasons. Firstly, operating actors may not have recognised the gains to the group that could be realised through the process of their interaction. They may evaluate the potential benefits of their association only in individual terms. Secondly, the benefits of group synergies may not accrue equally to individual parties. What may be beneficial to the group as a whole may be perceived as having adverse consequences for an individual operating actor. This can happen, for example, when internal actors are directed to break long standing relationships with external trading partners in favour of internal companies. A corporate centre may be 'forced' to intervene where there has been a history of hostility and animosity between group actors or where there has been intense rivalry between them.

Whilst relationships can be enforced to ensure synergies are exploited for the benefit of the group, it would be misleading to give the impression that synergies can only be realised between operating actors through the centre involving itself in their business relationships. Where these synergies are visible and significant to the actors, then network processes may be equally applicable in ensuring they are exploited for the group as a whole. Where internal actors perceive that these synergies can be realised to further their individual interests they are likely to be motivated to develop the necessary internal relationships without the influence of central intervention.

We must also emphasis the point that the involvement of a corporate centre in the relationships of individual operating actors is not always adverse. We have seen in Chapter 8, that a centre can consciously enhance the flow of information between parties in an intragroup relationship by helping to reduce social and cultural distance between them. A corporate centre can therefore enhance or lubricate the process of interaction where internal actors are motivated to form closer relationships. However, whilst the centre can shape the environment to facilitate the formation and development of relationships, this is significantly different from assuming direct responsibility for defining the terms of interaction between group actors.

A major difficulty confronts the centre where internal actors are reluctant to form internal relationships that results in lost opportunities for the group. We recognise that in these circumstances, a centre may have little option but to directly define the terms of relationships between operating actors through the enforcement of trading and transfer mandates. Our analysis indicates that where a corporate centre is committed to adopting hierarchical forms of co-ordination, it must ensure that the following factors are considered and fulfilled in order to develop effective relationships.

- Operating actors accept that the centre has a legitimate authority to impose rules over their activities.
- Operating actors accede that the demands of the group are subservient to their individual needs and requirements.
- Rules and directives are clear and unambiguous and are continuously clarified and refined by corporate management as situations dictate.
- Trading mandates should be accompanied by transfer rules that minimise negotiation between operating actors.
- Actors should perceive the threat of penalties and punishments for rule violation.
- Measurement and reward systems should enhance co-operation between actors rather than promote rivalry between them.
- Corporate management should seek to adopt measures that reduce social and cultural distance between actors.

- Corporate management should be prepared to assist operating actors in resolving and managing conflict between them

We therefore argue for 'clarity and consistency of approach' from a corporate centre when co-ordinating relationships between actors within a group. Whilst we argue that network forces are likely to result in more effective co-ordination strategies, we recognise that there are circumstances where a corporate centre needs to be directly involved in relationships between group actors. We contend that in these instances, intervention should be in such a form that minimises ambiguity and interpretation by operating actors in terms of what is expected of them by the central actor. We have shown that 'middle-of-the-road' strategies that attempt to mix elements of hierarchical and network processes are likely to be problematic for the parties involved. Where corporate centres attempt to combine elements of each co-ordination systems as a basis of forming and developing relationships between group companies the outcome is likely to be sub-optimal for all of the actors.

11.5 Implications for managers

The results and core conclusions of this thesis have important implications for managers involved in intragroup relationships. We have referred to these throughout the chapter, but it is worthwhile to bring them together under a single heading.

We saw in the first of our core conclusions that there is no one set of factors that define a typical intragroup relationship. Each may involve variety and variation which means that the beliefs and perceptions of managers around intragroup trading experienced in one relationship, may not be appropriate in others. Intragroup relationships reflect the preferences of a corporate centre in the way it chooses to co-ordinate the activities of its business units. These choices are expressed in trading and transfer policies that can take various forms. They are responsible for shaping the corporate environment in terms of the social and cultural distance between actors.

Much of the language colloquially used to describe the nature of corporate groups uses the metaphor of the family. A corporate centre is sometimes referred to as the parent company. Operating units are commonly referred to as sister companies. Family relationships can take a myriad of forms. Families can be cohesive close-knit units, united through bonds of loyalty and kinship. Disagreements and disputes between family members may be suppressed for the overall good of the family unit. On the other hand, families may be distant and remote where individuals pursue their own agendas for their own means. Families may be characterised by rivalry, such as the competition that can develop between siblings to gain the attention of their parents.

These settings give rise to relationships with varying characterising features. The approach taken in one intragroup relationship may therefore be inappropriate in a different corporate setting. It may even be inappropriate for the management of relationships with other actors in the same corporate group.

A second implication of the findings is that managers are likely to find these relationships more complex and difficult to manage. Managers have to think and operate in at least two dimensions: horizontally within networks and vertically within hierarchies. The requirements imposed by each dimension may sometimes conflict, necessitating compromise and sacrifice. Managers may need to be more flexible and adaptive in their relationships with other group companies. When they are not prepared to make these sacrifices conflict is the likely outcome.

As well as being more flexible and adaptive in their internal relationships, managers must also be more guarded and diligent because of the potential for mistrust to develop with both internal and external trading partners. Within the group, actors are more vulnerable to the opportunistic behaviour of internal partners. Outside of the group, actors are vulnerable to the tactics and manoeuvrings of competitors who may seek to destabilise relationships with external trading partners. These factors may necessitate managers having to work harder in their internal relationships than they would have in equivalent external relationships.

We have also seen that one of the outcomes of operating in a hierarchy and network simultaneously is that actors may feel more vulnerable and exposed because of the visibility this gives them to corporate management. Disputes and arguments between group trading partners are more likely to assume high profile. Some managers may not welcome this exposure. We have seen that one of the consequences of this is that managers may feel that they have to be more cautious and prudent in their internal relationships.

Finally, the high exit barriers associated with mandated interaction means that managers may feel more constrained and entrapped in internal relationships, especially where traditional conflict resolution mechanisms are not available to the parties involved.

In summary, there are a number of reasons why managers may view internal relationships as less rewarding than equivalent external relationships. We have seen that they are likely to require more effort and attention in an environment where parties may be more demanding of each other. Actors may feel more vulnerable and exposed to political and opportunistic behaviour of internal partners, yet at the same time feel they unable to withdraw from these relationships. We have seen that anecdotal evidence suggests that managers generally prefer the relative clarity and lack of ambiguity associated with interaction with external trading partners. The findings of this thesis would indicate that there may be certain justification for these sentiments.

11.6 Recommendations for further research

We identified in chapter 1 a number of reasons why the study of intragroup relationships was important. We saw that previous studies have highlighted the importance of the multi-divisional form of organisation and its predominance in modern industrial society. This suggests that relationships between group actors are frequent and widespread. Our research has also shown that the study of intragroup relationships is potentially valuable because they provide an environment where hierarchical and network processes operate alongside each other in close proximity. Intragroup relationships tell us something about the interaction of hierarchical and network forces in industrial systems. We therefore recommend continuing research in this area.

The prime focus of this study has been to concentrate on the perceptions of individual managers involved in intragroup relationships. The majority of respondents were drawn from a single organisation to give the benefit of a focused case study. Follow up work is suggested in a number of areas.

Firstly, research could be carried out at different levels within networks. Research could be targeted at specific relationships to compare and contrast the perceptions of actors involved on different sides of the same intragroup relationship. (Although in reality, the intragroup triad probably represents the smallest viable unit of analysis because of the influence of a corporate centre on the behaviour of operating actors). At the opposite end of the scale, research could be targeted at a higher network level where intragroup relationships may operate alongside external relationships between unrelated actors. This could usefully provide a comparison of the two forms in terms of their propensity to develop stable enduring relationships.

Secondly research could be targeted within specific group environments where various forms and combinations of trading and transfer mandates predominate. (In Chapter 5 we identified six potential combinations that shape interaction between group companies). We have highlighted that many of the respondents in the field research described group environments in which interaction between their operating companies was encouraged rather than being mandated or voluntary. This may be significant, or a chance event due to respondent selection. We therefore advocate that further research is carried out in contrasting environments, where hierarchical mechanisms dominate co-ordination patterns between group actors, or where interaction between actors is characterised by network processes. This would be important in validating some of the key conclusions presented in this thesis.

Thirdly, research could focus on specific events or circumstances involving intragroup relationships. Two change situations are of particular interest. Firstly, when a company is newly acquired into a group which already includes existing or potential trading partners; and secondly, when a group company is divested outside of the group, thereby transforming intragroup relationships into external intercompany relationships. The way actors respond to their new environments in terms of their behaviour patterns and their perceptions of the changing status of their trading partners would provide important clues about the nature of group relationships. A further interesting comparison would be between mature intragroup relationships and those that are newly formed.

Finally, research could replicate this study in different industrial sectors covering both manufacturing and service industries. More quantitative methods could be employed to identify the predominance of various forms of co-ordination mechanism across a large and diverse sample of corporations. This would contrast with the focus case study approach that has been adopted in this thesis.

Addendum

Alas, Agrifood exists no more!

During the period when this thesis was being written, a fundamental change was taking place at the top of the organisation. The departure of the CEO, together with the appointment of a new 'top team' at the centre paved way for a fundamental review of the strategy of the group. Synergies between the individual business units, identified in previous corporate plans, were fundamentally questioned. The essential rationale for the existence of the group was put under the spotlight

The conclusion of the review was that the break up value of the individual parts of the group was worth more than the sum of their whole. The outcome was that the various business units that comprised Agrifood were divested to new owners, or became subject to management buy outs. In the space of six months, a £4.5b corporation effectively ceased to exist.

Much of the blame for the downfall of the group was attributed to 'difficult' acquisitions and adverse market conditions. However a theme that comes through the research is that Agrifood did not manage its internal relationships well. The extent to which this contributed to its demise is difficult to say.

The Agrifood example emphasises the point that a strategy built around synergies between individual business units must pay particular attention to the relationships that develop between those units. It is the vehicle of the relationship, and interaction between individual actors, that creates synergy for a group. The management of intragroup relationships is therefore an essential task. Whether corporate managers at Agrifood really appreciated this, is somewhat questionable.

Appendix 1

Bibliography

Alderfer C & Smith K (1982). Studying Intergroup Relationships Embedded In Organisations. Administrative Science Quarterly 27 1982 35-65.

Aldrich H (1976). Resource Dependence And Interorganisational Relations. Administration and Society 7 419-453.

Anderson U & Pahlberg C (1992). Technical Developments In Subsidiaries And Its Affects On Influence In International Firms: A Network Approach. Paper presented to the 8th IMP conference.

Assael H (1969). The Constructive Role Of Interorganisational Conflict. Administrative Science Quarterly 14 (December) 573-582.

Biong H, Parvatiyar A & Wathne K (1996). Why Do Some Companies Not Engage In Partnering Relationships? Paper presented to the 12th IMP Conference at Karlsruhe Germany 1996.

Bonoma T (1976). Conflict, Co-operation And Trust In Three Power Systems. Behavioural Sciences Vol 21 499-514.

Brandach J & Eccles R (1989). Price, Authority And Trust: From Ideal Types To Plural Forms. Annual Review Of Sociology (1989) 97-118.

Brito C & Araujo L (1993). A Model Of Collective Action In Industrial Networks. Paper presented to the 9th IMP Conference Bath 1993.

Coase R (1937). The Nature Of The Firm. Economica, n.s. 4 386-405.

Cunningham M (1993). The Power Game Paper - A Study Of Power Within Supplier Customer Relationships. Paper presented to the 9th IMP Conference Bath 1993.

Dalton M (1959). Men Who Manage. Referenced in Research Methods for Managers. Gill J & Johnson P 1991 Paul Chapman Publishing

Douglas J (1976). Investigative Social Research: Individual And Team Field Research. Referenced in Research Methods for Managers. Gill J & Johnson P 1991 Paul Chapman Publishing

Easton G (1992). Industrial Networks A Review. From Industrial Networks A New View of Reality. Axelsson & Easton (ed) Routledge

Easton G & Araujo L (1992). Non Economic Exchange In Industrial Networks. From Industrial Networks A New View of Reality. Axelsson & Easton (ed) Routledge.

Easton G & Henriques M (1992). Competition In Triadic Relationships. Paper presented to the 8th IMP Conference.

Eccles R & White H (1988). Price and Authority In Inter Profit Centre Transactions. American Journal of Sociology Volume 94 Supplement 17-51.

Erikson E (1964). Insight And Responsibility. New York: Norton.

Evans D & Grossman S (1983). Integration. In Evans D (ed). Breaking Up Bell. MacMillan 1983 95-126.

Finch J (1987). The Vignette Technique In Survey Research. Sociology Vol 21 1 105-114.

Ford I D (1980). The Development Of Buyer-Seller Relationships In Industrial Markets. European Journal Of Marketing Vol 14 No 5/6 339-354.

Ford I D (1980). A Methodology For The Study Of Inter-company Relations In Industrial Market Channels. Journal of the Market Research Society 22 1 1980 44-59.

Ford I D (1997). Understanding Business Markets (Second edition). Ford I D. Dreyden Press (1997). p xii

Ford I D (1998). Managing Business Relationships. Published by John Wiley & Sons 1998.

Ford I D, Hakansson H & Johanson J (1986). How Do Companies Interact? Industrial Marketing & Purchasing 1, No 1 1986 26-41.

Ford I D & Rosson P (1982). The Relationships Between Export Manufacturers And Their Overseas Distributors. Reproduced in Understanding Business Markets (Second Edition). Ford I D. Dryden Press.

Forsgren M & Johanson J (1992). Managing In International Multi- Centre Firms. Managing Networks in International Business. Philadelpia PA: Gordon & Breach 19-31.

French J & Raven B (1959). The Bases Of Social Power. In Studies of Social Power. University of Michigan Press 1959 150-167.

Gill J & Johnson P (1991). Research Methods For Managers. 1991 Paul Chapman Publishing.

Gill J & Pratt J (1986). Responses To Financial Constraints Of Institutions Of Higher Education In The Public Sector. Referenced in Research Methods for Managers. Gill J & Johnson P 1991 Paul Chapman Publishing.

Goffman E (1956). The Nature Of Defence And Demeanour. American Anthropologist Vol 58 1956 47-85.

Golding D (1977). An Attempt To Gain Commitment For Organisation Development In An Engineering Company In The North Of England. Referenced in Research Methods for Managers. Gill J & Johnson P 1991 Paul Chapman Publishing.

Goold M & Campbell A (1987). Strategies And Styles. Oxford: Basil Blackwell.

Hadjikani A & Sharma D (1993). Political Actors In Industrial Networks. Paper presented to the 9th IMP Conference Bath 1993.

Hakansson H & Gadde L-E (1992). Supplier Relations. Professional Purchasing. Routledge 59-77, 101-121.

Hakansson H & Johanson J (1992). A Model Of Industrial Networks. From Industrial Networks A New View of Reality. Axelsson & Easton (ed) Routledge

Hakansson H & Snehota I (1989). No Business Is An Island: The Network Concept Of Business Strategy. Scandinavian Journal Of Management Vol 4 No 3 187-200.

Hakansson H & Snehota I (1994). Analysing Business Relationships. From Developing Relationships In Business Networks. Ed H Hakansson & I Snehota. Routledge 1994.

Hall R, Clark J, Giordano P, Johnson P & Van Roekel M (1977). Patterns Of Interorganisational Relationships. Administrative Science Quarterly Vol 22 September 1977 457-470.

Hallen J, Johanson J & Seyed-Mohamed N (1991). Interfirm Adaptation In Business Relationships. Journal of Marketing 55 April 1991 29-37.

Hammer-Lloyd S (1993). Relationships Appraisal: A Route To Improved Reseller Channel Performance. Paper presented to the 9th IMP Conference Bath 1993.

Han S, Wilson D & Dant S (1993). Buyer-Supplier Relationships Today. Industrial Marketing Management 22 (1993) 331-338.

Handy C (1985). Understanding Organisations. Penguin Group.

Harre R & Secord P (1972). The Explanation Of Social Behaviour. Oxford: Basil Blackwell.

Harrigan R (1985). Vertical Integration And Corporate Strategy. Academy of Management Journal 28 (1985) 397-425.

Harrigan R (1985). Strategies for Intrafirm Transfers And Outside Sourcing. Academy of Management Journal 28 (1985) 914-925.

Henke J. Krachenberg A & Lyons T (1989). Competing Against An In house Supplier. Industrial Marketing Management 18 (1989) 147-154.

Hickson D, Hinings R, Lee C, Schneck R & Pennings M (1971). A Strategic Contingencies Theory Of Interorganisational Power. Administrative Science Quarterly 16 216-229.

Holsti O (1969). Content Analysis For The Social Sciences And Humanities. Reading Mass. Addison-Wesley 1969.

IMP Group (1982). Reprinted in Understanding Business Markets (Second edition). Ford I D. Dreyden Press (1997). 3-22.

Islam S, Rajagopal S & Eadie D (1993). The Process And Pattern Of Interorganisational Relationships Between Advertising Agencies And Their Clients. A Proposed Framework. Paper Presented to the 9th IMP Conference Bath 1993.

Johanson J & Mattsson L-G (1985). Marketing Investments & Market Investment In Industrial Networks. International Journal of Research in Marketing 2 1985 185-195.

Johanson J & Mattsson L-G (1987). Interorganisational Relations In Industrial Systems: A Network Approach Compared With The Transaction Cost Approach. International Studies of Management & Organisation 17 No 1 1987 34-38.

Johanson J & Wootz B (1984). A Framework For The Study Of Marketing Investment Processes in Turnbull P & Paliwoda S (eds). Proceedings Of The Conference On Research Developments In International Marketing, UMIST, Manchester (1984), pp 301-17.

Kaman D (1993). Trust, Dependence & Opportunism In A Network: The Rise And Fall Of A Charter Carrier. Paper presented to the 9th IMP Conference Bath 1993.

Kamann D & Strijker D (1992). Mechanisms Of Co-ordination In The Dutch Horticultural Complex. European Review Of Agricultural Economics.

Katz D (1964). The Motivational Basis Of Organisational Behaviour. Behavioural Sciences Vol 9 (1964) 131-146.

Knoke D & Kuklinski J (1982). Network Analysis: Basic Concepts. Network Analysis. Beverly Hills: Sage Publications 9-21.

Krippendorff K (1980). Content Analysis: An Introduction To Its Methodology. Sage Publications 1980.

Lewin K (1946). Action Research And Minority Problems. Referenced in Research Methods For Managers. Gill J & Johnson P 1991 Paul Chapman Publishing

Mattsson L-G (1986). Indirect Relationships In Industrial Networks: A Conceptual Analysis Of Their Significance. 3rd IMP International Seminar, IRE, Lyon France.

McGuinness T (1996). Markets & Managerial Hierarchies. Reproduced in Markets, Hierarchies & Networks. The Co-ordination Of Social Life. Thompson G, Frances J, Levacic R & Mitchell J. Published by Sage Publications 1996.

Mintzberg H (1979). An Emerging Strategy Of 'Direct Research'. Referenced in Research Methods For Managers. Gill J & Johnson P 1991 Paul Chapman Publishing

Moorman C, Zaltmen G & Deshpande R (1992). Relationships Between Providers And Users Of Market Research: The Dynamics Of Trust Within And Between Organisations. Journal of Marketing Research Vol 29 August 314-329.

Morgan G (1986). Images Of Organisation. Sage Publications 1986.

Oliver C (1990). Determinants Of Interorganisational Relationships: Integration And Future Directions. Academy of Management Review 1990. Vol. 15 No 2. 241-265.

Osgood C E, Saporta S & Nunnally J C (1956). Evaluation Assertion Analysis. Litera Vol 3 1956 47-102.

Ouchi W (1980). Markets, Bureaucracies And Clans. Administrative Science Quarterly Vol 25 (1980) 129-141.

Oxenfeldt A (1964). Marketing Practices In The T.V. Set Industry, New York. Columbia University Press 1964.

Palmer D, Friedland R, Jennings P & Powers M (1987). The Economics And Politics Of Structure: The Multidivisional Form And The Large US Corporation. Administrative Science Quarterly 32 (1987) 25-48.

Patton W, Puto C & King R (1986). Which Buying Decision Are Made by Individuals And Not By Groups. Industrial Marketing Management 15 1986 129-138.

Pondy L (1967). Organisational Conflict: Concepts And Models. Administrative Science Quarterly 12 296-320.

Porter M (1980). Competitive Strategy. New York: Free Press.

Powell W (1990). Neither Market Or Hierarchy: Network Forms Of Organisation. Research In Organisational Behaviour 12 (1990) 295-336.

Raelin R (1982). A Policy Output Model Of Interorganisational Relations. Organisation Studies 1982 3/3 243-267.

Reece J & Cool W (1978). Measuring Investment Centre Performance. Harvard Business Review 56 (3) 28-40.

Renzetti C & Lee R (1993). Researching Sensitive Topics. 1993 Sage Publications.

Robins J (1987). Organisational Economics: Notes On The Use Of Transaction Cost Theory In The Study Of Organisations. Administrative Science Quarterly 32 1987 68-86.

Sako M (1992). Prices, Quality And Trust: Interfirm Relations In Britain And Japan. Cambridge University Press.

Smith H (1981). Strategies Of Social Research. Prentice-Hall 1981.

Stacey M (1969). Methods Of Social Research. Pergamon 1969.

Thompson G, Frances J, Levacic R & Mitchell J (1991). Markets, Hierarchies & Networks: The Co-ordination Of Social Life. Sage Publications.

Vazjak A (1994). Exploiting Your Synergy Potential: Promoting Collaboration Between Business Units. Long Range Planning Vol 27 No 1 25-35.

Walker G & Poppo L (1991). Profit Centres, Single Source Suppliers And Transaction Costs. Administrative Science Quarterly 36 (1991) 66-87.

Warren R (1967). The Interorganisational Field As A Focus For Investigation. Administrative Science Quarterly 12 396-419.

Weber M (1947). The Theory Of Social And Economic Organisation Free Press.

Welsh M & Slusher E (1986). Organisational Design As A Context for Political Activity. Administrative Science Quarterly 31 1986 389-402.

Whetten D (1981). Interorganisational Relations: A Review Of The Field. Journal of Higher Education 52 1-28.

Williamson O (1975). Markets & Hierarchies: Analysis And Antitrust Implications. New York. Free Press.

Williamson O (1984). The Economics Of Governance: Framework And Implications. Zeitschrift fur die gesamte Staatswissenschaft 40 195-223.

Williamson O (1985). The Economic Institutions Of Capitalism: Firms, markets, relational contracting. New York: Free Press.

Worsley P (1970). Introducing Sociology. Penguin Books

Young C (1996). Can We Trust Our Measures Of Trust. Paper presented to the 12th IMP Conference Karlsruhe Germany 1996.

Young C & Wilkinson I (1991). Towards A Typology Of Interfirm Relations In Marketing Systems. Paper presented at the 7th IMP Conference Uppsala 1991.

Appendix 2

Respondents

Focal Organisation: Agrifood PLC

Number of respondents interviewed by location in Agrifood PLC.

	Number	Respondent functions
Central Management		
Corporate management	6	Group Commercial Director, Group Strategic Planner, Group Technical Director, Group Divisional Directors (X3).
Divisional Management	4	Divisional Purchasing Controller, Group Manufacturing Support Manager, Group Business Development Manager, Divisional Financial Director.
Business unit management (by operating company)		
Tastetec	5	CEO, Commercial Director, Sales Director, Technical Director, Business Unit Manager.
Coverco	2	CEO, Marketing Director.
Millpro	3	CEO, Sales Director, Technical Manager.
Bakery Supplies	1	Marketing Director.
Agrivite	4	Purchasing Director, Purchasing Manager, Business Unit Director, Business Unit General Manager.
Potato Products	2	CEO, Regional Business Manager.
Petco	2	Purchasing Managers (X2).
Export Unit	1	Export Manager

Other Organisations

Number of respondents interviewed in other organisations

Corporate Group	Number	Respondent functions
Autosystems Inc.	1	Engineering Manager
Brit Chemicals Corp..	2	Business unit sales manager. Business Unit Marketing Manager.
Biotec PLC	1	UK Business Unit Manager.
Tilston Industries	1	Group CEO
Branded Foods Corp.	2	Business Unit Purchasing Director, Business Unit Manager.
Euro Industries PLC	1	Business Unit Manager.
Western Provisions PLC	1	Group Purchasing Co-ordinator
Dairy Industries PLC	1	Business Unit Purchasing Manager.

Note: All names have been changed to protect identity.

Appendix 3

Scenarios

	Scenario
1	In your conversations with a sister company, you feel that they are unusually reticent to tell you what is going on with other suppliers or customers outside of the Group. You wonder what they might have to hide.
2	Suppose your group has a history of favouring independence of its operating companies and has refrained from setting rules and policies on intercompany trading. However there is now a change in direction and strategy and the Group is placing more emphasis on co-operation between sister companies. You wonder how people will react to the new situation.
3	Suppose you have a successful relationship with an external company for many years and have developed strong personal links with its people. And suppose your relationships with a similar sister company is not so good. Suddenly, the centre is encouraging you to give more of your business to your sister company.
4	You have had a difficult relationship with a sister company for many years. Suddenly it is announced that your sister company is to be divested by the Group. You are concerned about the future.
5	You hear that people at the Centre have recently set rules and guidelines on intercompany trading to ensure matters are conducted in an orderly way and ensure individual companies are not disadvantaged.
6	You hear on the grapevine that a sister company has been trying to influence people at the centre to change the rules on transfer pricing in favour of their business.
7	You seem to be continually in disagreement with a sister company over the meaning of group policy on intercompany trading.
8	Your group has stated that the preferred policy is to favour internal companies where possible, but an internal supplier seems to believe that this means that it should be receiving the majority of your business.
9	Someone at the centre argues that they have the right to impose any policy they wish on intercompany trading even if that might be to the detriment to an individual business unit.
10	You are worried that your company is not following group policy on intercompany trading and are concerned about the consequences.
11	Over a period of time your company has developed a good relationship with an intergroup partner. One of your managers suggests that this has a positive affect on your image within the group.
12	Suppose that the policy of your group has changed to encourage more interaction between sister companies. Someone at the centre has stated that the only way that this can be achieved is to develop formal reporting and control systems
13	Your Group continuously encourages greater co-operation between internal companies yet at the same time values individual accountability and focused responsibility to achieve individual budgets and targets.

14	Your performance as an operating company is continuously being compared to other group companies by people at the centre.
15	As part of a policy to encourage internal co-operation, the centre has formed a number of working parties to identify areas of 'best practice' within the group, share ideas and compare buying prices.
16	You discover that one of your group trading partners seems to be continually seeking information about you from sources within the group and particularly from people at the centre.
17	A senior manager in your company is promoted to a position in a sister company with which you have a trading relationship. You are considering whether this is a good or bad thing.
18	Suppose you are attending a group training programme at the London Business School with people from other group companies. You have been asked to present an analysis of your company's strategy including strengths and weaknesses. You are not sure what to say.
19	One of your managers believes that if intercompany relationships go wrong, then it is usually the CEOs of the operating companies who are held responsible
20	You have the suspicion that a number of sister companies who you supply are colluding in order to force you to reduce your prices.
21	Imagine that a group buyer is unhappy with your service and starts to tell other companies within the group.
22	You have developed good relationships with the major customers in your market over a number of years. Suddenly you hear that your group has acquired one of these companies. You are concerned about your relationships with the other customers.
23	You have developed strong supply relationships over recent years, with manufacturers of a certain raw material. Suddenly, one of these suppliers is acquired by your group. You are concerned about your relationships with the other suppliers.
24	An intercompany customer seems very sensitive about your relationship with other customers in the market and claims that you are assisting one of its competitors.
25	An intercompany supplier seems very sensitive about your relationship with other suppliers and claims that you are assisting its competitors.
26	You hear that a company within the group is taking a associate company of one of your competitors around FTC.
27	One of your colleagues argues that it is only people at the centre who understand the true value of intercompany relationships.
28	Suppose you are forced to direct your technical resources towards a sister company when you know there are more lucrative opportunities outside of the group.
29	Suppose the centre directs that you have to purchase a proportion of your raw materials from a group supplier, despite the fact that there are better suppliers within the market.
30	Your purchasing manager complains that since one of your suppliers was acquired by your group, the level of service has gone down. You wonder what's behind it.
31	You seem to have more than average quality problems with an internal supplier and wonder if they are taking advantage.

32	You suspect that because of group transfer pricing rules, a sister company is making little profit from internal business.
33	You feel that a group customer takes advantage of being in the same group by continuously demanding faster service and better prices.
34	You perceive that an in-house supplier has become arrogant and has an attitude of taking your business for granted.
35	People at times feel they have something to prove and seem to be in competition with each other in intercompany relationships.
36	You know that an internal supplier is earning high profits and is performing significantly ahead of budget.
37	A manager in your business tells you that he thinks his actions are more closely scrutinised when dealing with a sister company and he feels more at risk.
38	You know that a group company is reluctant to deal with you. You hear on the grapevine that it has been attempting to discredit you with people at the centre by revealing recent service problems.
39	You have become so fed up with arguing with a sister company that you are tempted to cease supplying them.
40	Your company is seriously considering delisting a sister company as one of your suppliers. What might your thoughts be?
41	You are in dispute with a sister company and have asked the centre to intervene, however you find that people at the centre are reluctant to become involved.
42	One of your colleagues observes that you always seem to be arguing with a sister company and nothing ever seems to change.
43	One of your managers observes that intercompany relationships seem to be disproportionately time consuming in comparison to other external relationships especially in terms of senior management involvement.
44	Interaction between sister companies in your group is influenced by rules defined by people at the centre telling you who they should be trading with.
45	Being in the same group, you are always picking up information on the grapevine about sister companies.
46	One of your managers suggests that you must take into account the potential benefits to the group when dealing with sister companies.
47	Your CEO suddenly announces he has had a meeting with his opposite number in a sister company to 'sort things out'.
48	Even though the centre refrains from defining rules on intercompany trading, there still seems to be pressures for internal companies to trade together.

Appendix 4

Content Frames

Frame	Frame title	Frame description
1	Trading rules - actual	Corporate centres specify to operating actors who they must buy from or sell to.
2	Trading rules - desired	Corporate centres should specify to operating actors who they must buy from or sell to.
3	Trading rules effectiveness	Trading rules enhance co-operation between internal actors.
4	Trading encouragement	Corporate centres encourage internal business units to co-operate.
5	Transfer rules - actual	Corporate centres specify transfer rules to operating actors.
6	Transfer rules - desired	Corporate centres should specify transfer rules to operating actors.
7	Transfer rules effectiveness	Transfer rules are effective.
8	Transfer encouragement	Corporate centres encourage the use of transfer rules by operating actors.
9	Culture change	New policies and mandates are difficult to implement due to existing cultures and attitudes amongst operating actors.
10	Mandate change	Nature of relationships change when mandates are lifted.
11	Rules interpretation differences	Operating actors place different interpretation and meaning on group policies on intragroup trading.
12	Rules interpretation selectivity	Operating actors interpret mandates in terms most favourable to themselves.
13	Lobbying	Operating actors seek to influence corporate centres to change the terms of mandates in their favour.
14	Centre legitimacy	Corporate centres have the right to impose trading mandates over operating actors.
15	Formal monitoring - actual	Corporate centres formally monitor the relationships of operating actors.
16	Formal monitoring - desired	Corporate centres should formally monitor the relationships of operating actors.
17	Punishment - actual	Corporate centres punish actors to enforce policies on intragroup trading.
18	Reward - actual	Corporate centres reward actors for intragroup trading.
19	Reward - desired	Corporate centres should reward actors for intragroup trading.
20	Individual performance targets.	Operating companies are measured against individual performance targets.
21	Measurement/mandate compatibility	Individual measurement and reward systems are compatible with mandates on intragroup trading.
22	Comparisons - actual	Corporate centres compare the performance of individual operating actors.
23	Comparisons - desired	Corporate centres should compare the performance of individual operating actors.

24	Comparisons rivalry	Comparisons of operating actors causes rivalry between them.
25	Centre information source	Group companies seek information about each other through a central actor.
26	Information sharing encouragement	Corporate centres encourage operating actors to share information.
27	Openness - actual	Group operating companies are open with each other.
28	Informal information networks	Group companies obtain information about each other through internal grapevines and informal information sources.
29	People transfer - actual	Relationships between group companies are influenced by the movement of people between them.
30	People transfer - desired	People should move between operating companies to enhance relationships.
31	Knowledge of trading performance	Group companies are knowledgeable of the trading performances of internal partners.
32	Knowledge strategic	Group companies are knowledgeable of the strategies of their trading partners.
33	Knowledge cost & margins	Group companies are knowledgeable of the costs and margins of internal partners.
34	Knowledge general	Group companies are generally knowledgeable of the activities of their internal trading partners.
35	Business unit manager accountability	Corporate centres hold business unit managers responsible for relationships between their business units.
36	Business unit manager influence	Business unit managers are particularly important in setting the atmosphere of intragroup relationships.
37	Internal price collaboration	Internal buyers collude to control prices from group suppliers.
38	Internal performance collaboration	Internal buyers share information on the performance of in house suppliers.
39	Trust between internal trading partners	Operating actors trust internal trading partners.
40	External customer mistrust	External customers are mistrustful of a supplier in the same corporate group as one of their competitors.
41	External supplier mistrust	External suppliers are mistrustful of a customer in the same corporate group as one of their competitors.
42	Internal customer sensitivity	Group customers are sensitive over an internal supplier's relationship with one of their competitors.
43	Internal supplier sensitivity	Group suppliers are sensitive over an internal customer's relationship with one of their competitors.
44	Group welfare over individual - actual	Group needs are put above individual needs.
46	Group welfare over individual - desired	Group needs should be put above individual needs.
47	External partners favoured over internal	Group companies favour external partners over internal.
48	Mandate opposition	Operating actors seek to resist or circumvent a mandate they object to or dispute.
49	Seller mandate exploitation service	Group sellers exploit the existence of a mandate by compromising service.
50	Seller mandate exploitation quality	Group sellers exploit the existence of a mandate by compromising quality.
51	Buyer mandate exploitation price	Group buyers exploit the existence of a mandate by demanding lower prices.

52	Buyer mandate exploitation service	Group buyers exploit the existence of a mandate by demanding higher levels of service.
53	Seller mandate exploitation general	Group sellers take internal trading partners for granted.
54	Seller favoured status	Group sellers expect to have a favoured status when dealing with group customers.
55	External benchmarks	Internal buyers are reluctant to source exclusively from in house companies because of the need for external benchmarks.
56	Internal seller commitment	Group sellers need to work harder to satisfy internal customers.
57	Rivalry between actors	Internal relationships are characterised by rivalry between actors.
58	Actor exposure & vulnerability	Individuals feel exposed and vulnerable in intragroup relationships.
59	Centre perception influence	Group companies seek to influence the centre's perception of each other.
60	Termination reticence	Group companies are reluctant to terminate relationships with internal partners.
61	Centre termination disapproval	Termination of internal relationships would be disapproved of by a corporate centre.
62	Dispute intensity	Internal relationships are characterised by high levels of dispute and argument.
63	Centre intervention reluctance	Corporate centres are reluctant to become involved in disputes between operating companies.
64	Centre intervention - desired	Corporate centres should be involved in disputes between operating companies.
65	Internal relationships effort	Internal relationships are disproportionately time consuming.
66	Co-operation - desired	Internal actors should co-operate with each other.
67	Inferior trading partner mandate undesired	A corporate centre should not mandate a relationships with an inferior trading partner.
68	Openness - desired	Group operating companies should be open with each other.
69	External customer priority	Group sellers give priority to external customers over internal.
70	Buyer mandate exploitation general	Group buyers exploit the existence of a mandate by generally demanding increased commitment from internal suppliers.
71	Punishment - desired	Corporate centres should punish operating companies to enforce intragroup trading.
73	Centre overview	The centre takes an overview of the potential benefits of intragroup trading.
74	Seller mandate exploitation price	Group sellers exploit the existence of a mandate by charging higher prices.
77	Knowledge actual	Group companies are generally knowledgeable of the activities and performance of internal trading partners.
78	Opportunism group sellers over buyers	Group sellers exploit the existence of a mandate in their internal relationships.
79	Opportunism group buyers over sellers	Group buyers exploit the existence of a mandate in their internal relationships.

Appendix 5

Sample Scoring for Respondent 1

No	Frame title	Scores	Total	Mentions	Mean
F1	Trading rules - actual	1 2 1 1 2 1 1 -2 -2 -2 1 1	5	12	0.42
F2	Trading rules - desired	-1 1	0	2	0.00
F3	Trading rules effectiveness				
F4	Trading encouragement	1	1	1	1.00
F5	Transfer rules - actual	-1 -2 -2	-5	3	-1.67
F6	Transfer rules - desired				
F7	Transfer rules effectiveness				
F8	Transfer encouragement				
F9	Culture change	1	1	1	1.00
F10	Mandate change	-1 2 2 2 2 2	9	6	1.50
F11	Rules interpretation differences	2	2	1	2.00
F12	Rules interpretation selectivity.	2 2	4	2	2.00
F13	Lobbying	1 1 2 2 2 2 1 2 2 2 2	19	11	1.73
F14	Centre legitimacy	1	1	1	1.00
F15	Formal monitoring - actual	-2 -2	-4	2	-2.00
F16	Formal monitoring - desired	1 1	2	2	1.00
F17	Punishment - actual	-1 1 1 1 1 1	4	6	0.67
F18	Reward - actual	1	1	1	1.00
F19	Reward - desired				
F20	Individual performance targets	2 2	4	2	2.00
F21	Measurement/mandate compatibility	-1	-1	1	-1.00
F22	Comparisons - actual	2	2	1	2.00
F23	Comparisons - desired	-1 1	0	2	0.00
F24	Comparisons rivalry				
F25	Centre information source	1	1	1	1.00
F26	Information sharing encouragement	2	2	1	2.00
F27	Openness - actual	-2 -2 1 -1 2 2 -1 -1 -1 -1 -2 -2 2	-6	13	-0.46
F28	Informal information networks				
F30	People transfer - desired				
F31	Knowledge of trading performance	2 2 2 2	8	4	2.00
F32	Knowledge strategic				
F33	Knowledge of costs & margins	2 2 2 1	7	4	1.75
F34	Knowledge general	1 1 2 2 2 2	10	6	1.67
F35	Business unit manager accountability	-2	-2	1	-2.00
F36	Business unit manager influence	1 2 2 2	7	4	1.75
F37	Internal price collaboration	1 1	2	2	1.00
F38	Internal performance collaboration	2 2	4	2	2.00
F39	Trust between internal trading partners				
F40	External customer mistrust.	2 2 2 2	8	4	2.00
F41	External supplier mistrust				
F42	Internal customer sensitivity	2 2 2	6	3	2.00
F43	Internal supplier sensitivity	1 1 2	4	3	1.33
F44	Group welfare over individual-actual	-1 -1 -1	-3	3	-1.00
F46	Group welfare over individual-desired	2	2	1	2.00
F47	External partners favoured over internal	1	1	1	1.00
F48	Mandate opposition	2 2 2 1 -2 -2 1 2 2	8	9	0.89
F49	Seller mandate exploitation service	-2	-2	1	-2.00
F50	Seller mandate exploitation quality	1	1	1	1.00
F51	Buyer mandate exploitation price	2 2	4	2	2.00
F52	Buyer mandate exploitation service				
F53	Seller mandate exploitation general	2 1 -1	2	3	0.67
F54	Seller favoured status	2	2	1	2.00
F55	External benchmarks	2	2	1	2.00
F56	Internal seller commitment				
F57	Rivalry between actors	2 2 2	6	3	2.00
F58	Exposure & vulnerability	1 1 1 2	5	4	1.25
F59	Centre perception influence	2 2	4	2	2.00
F60	Termination reticence	2 2 2 -1 2 2	9	6	1.50
F61	Centre termination disapproval	2 2	4	2	2.00
F62	Dispute intensity	1	1	1	1.00
F63	Centre intervention reluctance	2 2	4	2	2.00
F64	Centre intervention - desired	2	2	1	2.00
F65	Internal relationships effort	1 2 2	5	3	1.67
F66	Co-operation - desired.	2 2 2 2 2	10	5	2.00
F67	Inferior trading partner - undesired.				
F68	Openness - desired	-2 -1	-3	2	-1.50
F69	External customer priority	2	2	1	2.00
F70	Buyer mandate exploitation general	1	1	1	1.00
F71	Punishment - desired				
F73	Centre overview	1 -2 1 1	1	4	0.25
F74	Seller mandate exploitation price	2	2	1	2.00

Appendix 6

Statistical analysis - One sample t-test

Score range	+2 to -2
N	Total number of respondents who recorded responses in a particular frame.
M	Mean of the scores.
SD	Standard deviation of the scores.
One sample t-test	Null hypothesis = The sample mean for each frame is equal to 0. Significance level = equal to or less than 0.05 A = No significant difference therefore accept null hypothesis R = Significant difference therefore reject null hypothesis For further information see page 54

No	Frame title	Frame description	N	M	SD	t-value	2-tail P	
1	Trading rules - actual	Corporate centres specify to operating actors who they must by from or sell to.	40	-0.4	1.4	-1.79	0.082	A
2	Trading rules - desired	Corporate centres should specify to operating actors who they must buy from or sell to.	17	-0.2	1.5	-0.60	0.555	A
3	Trading rules effectiveness	Trading rules enhance co-operation between internal actors.	31	-1.6	0.4	-21.23	0.000	R
4	Trading encouragement	Corporate centres encourage internal business units to co-operate.	37	1.8	0.4	31.75	0.000	R
5	Transfer rules - actual	Corporate centres specify transfer rules to operating actors.	31	1.0	1.5	3.68	0.001	R
6	Transfer rules - desired	Corporate centres should specify transfer rules to operating actors.	25	1.1	1.1	5.30	0.000	R
7	Transfer rules effectiveness	Transfer rules are effective.	27	-1.0	0.8	-6.38	0.000	R
8	Transfer encouragement	Corporate centres encourage the use of transfer rules by operating actors.	0	N/A	N/A	N/A	N/A	
9	Culture change	New policies and mandates are difficult to implement due to existing cultures and attitudes amongst operating actors.	30	1.7	0.4	21.77	0.000	R
10	Mandate change	Nature of relationships change when mandates are lifted.	35	1.2	1.1	6.89	0.000	R
11	Rules interpretation differences	Operating actors place different interpretation and meaning on group policies on intragroup trading	28	1.2	1.2	5.49	0.000	R
12	Rules interpretation selectivity.	Operating actors interpret mandates in terms most favourable to themselves.	17	1.5	1.0	6.11	0.000	R
13	Lobbying	Operating actors seek to influence corporate centres to change the terms of mandates in their favour.	40	1.4	1.0	9.23	0.000	R
14	Centre legitimacy	Corporate centres have the right to impose trading mandates over operating actors.	30	0.6	1.1	3.04	0.005	R
15	Formal monitoring - actual	Corporate centres formally monitor the relationships of operating actors.	11	-0.3	1.7	-0.54	0.602	A
16	Formal monitoring - desired	Corporate centres should formally monitor the relationships of operating actors.	35	-0.4	1.4	-1.82	0.078	A
17	Punishment - actual	Corporate centres punish actors to enforce policies on intragroup trading.	28	-0.7	1.1	-3.31	0.003	R
18	Reward - actual	Corporate centres reward actors for intragroup trading.	14	0.7	0.9	2.99	0.010	R
19	Reward - desired	Corporate centres should reward actors for intragroup trading.	11	1.1	1.0	3.48	0.006	R
20	Individual performance targets	Operating companies are measured against individual performance targets.	32	2.0	0.3	41.67	0.000	R

21	Measurement/mandate compatibility.	Individual measurement and reward systems are compatible with mandates on intragroup trading.	35	-0.6	1.2	-2.69	0.011	R
22	Comparisons - actual	Corporate centres compare the performance of individual operating actors.	33	1.8	0.4	26.01	0.000	R
23	Comparisons - desired	Corporate centres should compare the performance of individual operating actors.	24	0.4	1.2	1.67	0.108	A
24	Comparisons rivalry	Comparisons of operating actors causes rivalry between them.	12	0.5	1.3	1.19	0.261	A
25	Centre information source	Group companies seek information about each other through a central actor.	35	0.4	1.3	1.70	0.098	A
26	Information sharing encouragement	Corporate centres encourage operating actors to share information.	37	1.7	0.7	14.74	0.000	R
27	Openness - actual	Group operating companies are open with each other.	39	-0.2	1.1	-1.32	0.194	A
28	Informal information networks	Group companies obtain information about each other through internal grapevines and informal information sources.	37	1.5	1.1	7.77	0.000	R
30	People transfer - desired	People should move between operating companies to enhance relationships.	26	1.8	0.3	27.71	0.000	R
31	Knowledge of trading performance	Group companies are knowledgeable of the trading performance of internal partners.	25	1.8	0.4	24.04	0.000	R
32	Knowledge strategic	Group companies are knowledgeable of the strategies of their internal trading partners.	7	1.4	0.5	7.07	0.000	R
33	Knowledge costs & margins	Group companies are knowledgeable of the costs and margins of their internal partners.	12	1.3	0.9	4.75	0.001	R
34	Knowledge general	Group companies are generally knowledgeable of the activities of their internal trading partners.	9	1.7	0.6	9.10	0.000	R
35	Business unit manager accountability	Corporate centres hold business unit managers responsible for relationships between their business units.	37	0.4	1.6	1.47	0.150	A
36	Business unit manager influence	Business unit managers are particularly important in setting the atmosphere of intragroup relationships.	34	1.5	0.6	16.03	0.000	R
37	Internal price collaboration	Internal buyers collude to control prices from group suppliers.	37	0.2	1.3	0.88	0.382	A
38	Internal performance collaboration	Internal buyers share information on the performance of in house suppliers.	38	1.3	1.0	8.33	0.000	R
39	Trust between internal trading partners	Operating actors trust internal trading partners.	13	-0.8	1.1	-2.60	0.023	R
40	External customer mistrust.	External customers are mistrustful of a supplier in the same corporate group as one of their competitors.	39	1.2	0.9	7.97	0.000	R
41	External supplier mistrust	External suppliers are mistrustful of a customer in the same corporate group as one of their competitors.	34	0.8	1.1	4.26	0.000	R
42	Internal customer sensitivity	Group customers are sensitive over an internal supplier's relationship with one of their competitors.	33	0.9	1.0	5.42	0.000	R
43	Internal supplier sensitivity	Group suppliers are sensitive over an internal customer's relationship with one of their competitors.	32	1.4	0.7	11.53	0.000	R
44	Group welfare over individual - actual.	Group needs are put above individual needs.	35	-0.6	1.0	-3.56	0.001	R
46	Group welfare over individual - desired.	Group needs should be put above individual needs.	36	1.7	0.6	15.46	0.000	R
47	External partners favoured over internal	Group companies favour external partners over internal.	18	1.7	0.5	15.69	0.000	R
48	Mandate opposition	Operating actors seek to resist or circumvent a mandate they object to or dispute.	34	1.4	0.6	14.14	0.000	R
49	Seller mandate exploitation service	Group sellers exploit the existence of a mandate by compromising service.	28	0.7	1.2	3.16	0.004	R
50	Seller mandate exploitation quality	Group sellers exploit the existence of a mandate by compromising quality.	32	0.9	1.2	4.19	0.000	R

51	Buyer mandate exploitation price	Group buyers exploit the existence of a mandate by demanding lower prices.	16	0.7	1.5	1.74	0.103	A
52	Buyer mandate exploitation service	Group buyers exploit the existence of a mandate by demanding higher levels of service.	14	0.4	1.4	1.03	0.323	A
53	Seller mandate exploitation general	Group sellers take internal partners for granted.	37	1.4	0.8	9.79	0.000	R
54	Seller favoured status	Group suppliers expect to have favoured status when dealing with group customers.	22	1.3	0.8	7.24	0.000	R
55	External benchmarks	Internal buyers are reluctant to source exclusively from in house companies because of the need for external benchmarks.	24	1.4	0.8	8.01	0.000	R
56	Internal seller commitment	Group sellers need to work harder to satisfy internal customers.	13	2.0	0.0	N/A	N/A	
57	Rivalry between actors	Internal relationships are characterised by rivalry between individuals.	40	1.3	0.9	9.36	0.000	R
58	Exposure & vulnerability	Individuals feel exposed and vulnerable in intragroup relationships.	40	0.9	1.3	4.43	0.000	R
59	Centre perception influence	Internal companies seek to influence the centre's perception of each other.	39	1.1	1.2	5.55	0.000	R
60	Termination reticence	Group companies are reluctant to terminate relationships with internal partners.	40	0.3	1.3	1.58	0.123	A
61	Centre termination disapproval	Termination of internal relationships would be disapproved of by a corporate centre.	22	1.6	0.5	16.63	0.000	R
62	Dispute intensity	Internal relationships are characterised by high levels of dispute and argument.	37	1.2	1.1	6.46	0.000	R
63	Centre intervention reluctance	Corporate centres are reluctant to become involved in disputes between operating companies.	34	1.1	1.2	5.23	0.000	R
64	Centre intervention - desired	Corporate centres should be involved in disputes between operating companies.	28	0.4	1.3	1.83	0.078	A
65	Internal relationships effort	Internal relationships are disproportionately time consuming.	37	1.3	1.1	7.45	0.000	R
66	Co-operation - desired.	Internal actors should co-operate with each other.	32	1.9	0.3	34.54	0.000	R
67	Inferior trading partner undesired.	A corporate centre should not mandate a relationship with an inferior trading partner.	25	1.5	0.7	11.55	0.000	R
68	Openness - desired	Group operating companies should be open with each other.	26	1.5	0.7	9.98	0.000	R
69	External customer priority	Group sellers give higher priority to external customers over internal.	17	1.4	0.6	9.35	0.000	R
70	Buyer mandate exploitation general	Group buyers exploit the existence of a mandate by generally demanding increased commitment from internal suppliers.	28	0.9	1.0	4.78	0.000	R
71	Punishment - desired	Corporate centres should punish operating actors to enforce intragroup trading.	6	1.3	0.4	8.00	0.000	R
73	Centre overview	The centre takes an over view of the potential benefits of intragroup trading.	20	0.4	1.4	1.39	0.180	A
74	Seller mandate exploitation price	Group sellers exploit the existence of a mandate by charging higher prices.	17	1.0	0.9	4.55	0.000	R
77	Knowledge actual	Group companies are knowledgeable of the activities and performance of internal trading partners.	34	1.6	0.6	14.96	0.000	R
78	Opportunism group sellers over buyers	Group suppliers exploit the existence of a mandate in their internal relationships.	40	1.1	0.7	9.68	0.000	R
79	Opportunism group buyers over sellers	Group buyers exploit the existence of a mandate in their internal relationships.	38	0.8	1.0	5.18	0.000	R

Appendix 7

Statistical analysis - Mann-Whitney test

Score range	+2 to -2
Type	Type 1 = Agrifood respondents. Type 2 = Other respondents.
N	Number of respondents who recorded responses in a particular frame.
M	Mean of the scores.
SD	Standard deviation of the scores.
Mann-Whitney	Null hypothesis = There is no difference between the distributions (i.e. respondent types 1 & 2 have similar views). Significance level = equal to or less than 0.05. A= No significant difference therefore accept null hypothesis R = Significant difference therefore reject null hypothesis. For further information see page 54.

No	Frame title	Frame description	Type	N	M	SD	Z-value	2-tail P	
1	Trading rules - actual	Corporate centres specify to operating actors who they must by from or sell to.	1 2	30 10	-0.2 -1.1	1.4 1.0	-1.686	0.092	A
2	Trading rules - desired	Corporate centres should specify to operating actors who they must buy from or sell to.	1 2	15 2	-0.4 1.0	1.5 0.0	-1.066	0.286	A
3	Trading rules effectiveness	Trading rules enhance co-operation between internal actors.	1 2	24 7	-1.6 -1.8	0.4 0.4	-1.273	0.203	A
4	Trading encouragement	Corporate centres encourage internal business units to co-operate.	1 2	29 8	1.9 1.6	0.3 0.5	-1.252	0.211	A
5	Transfer rules - actual	Corporate centres specify transfer rules to operating actors.	1 2	21 10	0.9 1.1	1.4 1.6	-0.394	0.694	A
6	Transfer rules - desired	Corporate centres should specify transfer rules to operating actors.	1 2	19 6	1.0 1.7	1.2 0.4	-0.931	0.352	A
7	Transfer rules effectiveness	Transfer rules are effective.	1 2	20 7	-1.2 -0.6	0.6 1.2	-0.156	0.120	A
8	Transfer encouragement	Corporate centres encourage the use of transfer rules by operating actors.	1 2	0 0			N/A	N/A	
9	Culture change	New policies and mandates are difficult to implement due to existing cultures and attitudes amongst operating actors.	1 2	23 7	1.7 1.6	0.4 0.6	-0.444	0.657	A
10	Mandate change	Nature of relationships change when mandates are lifted.	1 2	27 8	1.5 0.3	0.8 1.4	-2.332	0.020	R
11	Rules interpretation differences	Operating actors place different interpretation and meaning on group policies on intragroup trading	1 2	21 7	1.2 1.2	1.1 1.5	-0.318	0.750	A
12	Rules interpretation selectivity.	Operating actors interpret mandates in terms most favourable to themselves.	1 2	12 5	1.7 0.9	0.5 1.7	-1.071	0.284	A
13	Lobbying	Operating actors seek to influence corporate centres to change the terms of mandates in their favour.	1 2	30 10	1.3 1.6	1.0 0.8	-0.970	0.332	A
14	Centre legitimacy	Corporate centres have the right to impose trading mandates over operating actors.	1 2	22 8	0.7 0.3	1.1 1.3	-0.694	0.487	A
15	Formal monitoring - actual	Corporate centres formally monitor the relationships of operating actors.	1 2	8 3	-0.3 -0.3	1.7 2.1	-0.107	0.915	A
16	Formal monitoring - desired	Corporate centres should formally monitor the relationships of operating actors.	1 2	27 8	-0.5 -0.3	1.5 1.4	-0.663	0.507	A
17	Punishment - actual	Corporate centres punish actors to enforce policies on intragroup trading.	1 2	23 5	-0.7 -0.9	1.1 1.2	-0.549	0.583	A
18	Reward - actual	Corporate centres reward actors for intragroup trading.	1 2	14 0	0.7	0.9	N/A	N/A	
19	Reward - desired	Corporate centres should reward actors for intragroup trading.	1 2	10 1	1.3 -0.7	0.9	-1.289	0.198	A
20	Individual performance targets	Operating companies are measured against individual performance targets.	1 2	23 9	2.0 1.8	0.0 0.5	-1.599	0.110	A

21	Measurement/mandate compatibility.	Individual measurement and reward systems are compatible with mandates on intragroup trading.	1 2	27 8	-0.4 -1.1	1.3 1.0	-1.486	0.137	A
22	Comparisons - actual	Corporate centres compare the performance of individual operating actors.	1 2	25 8	1.8 1.8	0.4 0.5	-0.312	0.755	A
23	Comparisons - desired	Corporate centres should compare the performance of individual operating actors.	1 2	19 5	0.1 1.6	1.2 0.5	-2.415	0.016	R
24	Comparisons rivalry	Comparisons of operating actors causes rivalry between them.	1 2	8 4	0.1 1.3	1.5 0.5	-1.329	0.184	A
25	Centre information source	Group companies seek information about each other through a central actor.	1 2	27 8	0.6 -0.4	1.3 1.1	-0.219	0.029	R
26	Information sharing encouragement	Corporate centres encourage operating actors to share information.	1 2	28 9	1.7 1.8	0.8 0.4	-0.714	0.476	A
27	Openness - actual	Group operating companies are open with each other.	1 2	29 10	-0.6 0.9	0.9 0.9	-3.517	0.000	R
28	Informal information networks	Group companies obtain information about each other through internal grapevines and informal information sources.	1 2	27 10	1.7 0.8	0.5 1.9	-1.101	0.271	A
30	People transfer - desired	People should move between operating companies to enhance relationships.	1 2	19 7	1.8 1.9	0.3 0.4	-0.295	0.768	A
31	Knowledge of trading performance	Group companies are knowledgeable of the trading performance of internal partners.	1 2	18 7	1.8 2.0	0.4 0.0	-1.522	0.128	A
32	Knowledge strategic	Group companies are knowledgeable of the strategies of their internal trading partners.	1 2	6 1	1.3 2.0	0.5	-1.155	0.248	A
33	Knowledge costs & margins	Group companies are knowledgeable of the costs and margins of their internal partners.	1 2	10 2	1.3 1.3	1.0 1.1	-0.112	0.911	A
34	Knowledge general	Group companies are generally knowledgeable of the activities of their internal trading partners.	1 2	6 3	1.5 2.0	0.6 0.0	-1.381	0.167	A
35	Business unit manager accountability	Corporate centres hold business unit managers responsible for relationships between their business units.	1 2	27 10	0.4 0.5	1.7 1.4	-0.106	0.915	A
36	Business unit manager influence	Business unit managers are particularly important in setting the atmosphere of intragroup relationships.	1 2	25 9	1.6 1.4	0.5 0.7	-0.772	0.440	A
37	Internal price collaboration	Internal buyers collude to control prices from group suppliers.	1 2	29 8	0.2 0.0	1.3 1.7	-0.094	0.925	A
38	Internal performance collaboration	Internal buyers share information on the performance of in house suppliers.	1 2	28 10	1.3 1.3	0.9 1.3	-0.304	0.762	A
39	Trust between internal trading partners	Operating actors trust internal trading partners.	1 2	11 2	-1.1 0.5	0.8 2.1	-1.220	0.223	A
40	External customer mistrust.	External customers are mistrustful of a supplier in the same corporate group as one of their competitors.	1 2	29 10	1.3 0.9	0.7 1.4	-0.567	0.571	A
41	External supplier mistrust	External suppliers are mistrustful of a customer in the same corporate group as one of their competitors.	1 2	27 7	0.8 0.7	1.0 1.3	-0.108	0.914	A
42	Internal customer sensitivity	Group customers are sensitive over an internal supplier's relationship with one of their competitors.	1 2	24 9	1.0 0.7	1.0 1.1	-0.817	0.414	A
43	Internal supplier sensitivity	Group suppliers are sensitive over an internal customer's relationship with one of their competitors.	1 2	25 7	1.4 1.4	0.7 0.4	-0.560	0.576	A
44	Group welfare over individual - actual.	Group needs are put above individual needs.	1 2	25 10	-0.9 0.0	0.7 1.4	-1.807	0.071	A
46	Group welfare over individual - desired.	Group needs should be put above individual needs.	1 2	26 10	1.7 1.7	0.7 0.6	-0.123	0.902	A
47	External partners favoured over internal	Group companies favour external partners over internal.	1 2	17 1	1.7 2.0	0.5	-0.699	0.485	A
48	Mandate opposition	Operating actors seek to resist or circumvent a mandate they object to or dispute.	1 2	26 8	1.5 1.2	0.6 0.3	-1.903	0.057	A
49	Seller mandate exploitation service	Group sellers exploit the existence of a mandate by compromising service.	1 2	20 8	0.8 0.5	1.2 1.2	-1.249	0.212	A
50	Seller mandate exploitation quality	Group sellers exploit the existence of a mandate by compromising quality.	1 2	23 9	1.0 0.7	1.2 1.3	-0.704	0.481	A

51	Buyer mandate exploitation price	Group buyers exploit the existence of a mandate by demanding lower prices.	1 2	13 3	1.0 -0.7	1.5 1.2	-0.111	0.077	A
52	Buyer mandate exploitation service	Group buyers exploit the existence of a mandate by demanding higher levels of service.	1 2	10 4	0.3 0.6	1.5 1.4	-0.502	0.616	A
53	Seller mandate exploitation general	Group sellers take internal partners for granted.	1 2	28 9	1.5 0.8	0.6 1.3	-1.414	0.157	A
54	Seller favoured status	Group suppliers expect to have favoured status when dealing with group customers.	1 2	18 4	1.4 1.0	0.8 1.2	-0.538	0.590	A
55	External benchmarks	Internal buyers are reluctant to source exclusively from in house companies because of the need for external benchmarks.	1 2	19 5	1.2 2.0	0.9 0.0	-2.606	0.009	R
56	Internal seller commitment	Group sellers need to work harder to satisfy internal customers.	1 2	10 3	2.0 2.0	0.0 0.0	0.000	1.000	A
57	Rivalry between actors	Internal relationships are characterised by rivalry between individuals.	1 2	30 10	1.5 0.8	0.8 1.0	0.036	0.026	R
58	Exposure & vulnerability	Individuals feel exposed and vulnerable in intragroup relationships.	1 2	30 10	1.0 0.5	1.3 1.4	-1.050	0.294	A
59	Centre perception influence	Internal companies seek to influence the centre's perception of each other.	1 2	30 9	1.3 0.3	1.0 1.4	-2.126	0.034	R
60	Termination reticence	Group companies are reluctant to terminate relationships with internal partners.	1 2	30 10	0.4 0.2	1.2 1.6	-0.252	0.801	A
61	Centre termination disapproval	Termination of internal relationships would be disapproved of by a corporate centre.	1 2	16 6	1.6 1.6	0.5 0.5	-0.120	0.904	A
62	Dispute intensity	Internal relationships are characterised by high levels of dispute and argument.	1 2	27 10	1.3 0.8	0.7 1.7	-0.248	0.804	A
63	Centre intervention reluctance	Corporate centres are reluctant to become involved in disputes between operating companies.	1 2	25 9	1.2 0.7	1.0 1.6	-0.596	0.551	A
64	Centre intervention - desired	Corporate centres should be involved in disputes between operating companies.	1 2	23 5	0.4 0.6	1.4 1.0	-0.061	0.916	A
65	Internal relationships effort	Internal relationships are disproportionately time consuming.	1 2	28 9	1.3 1.4	1.0 1.3	-1.056	0.291	A
66	Co-operation - desired.	Internal actors should co-operate with each other.	1 2	24 8	1.9 1.8	0.3 0.3	-1.323	0.186	A
67	Inferior trading partner undesired.	A corporate centre should not mandate a relationship with an inferior trading partner.	1 2	20 5	1.5 1.6	0.7 0.5	-0.286	0.775	A
68	Openness - desired	Group operating companies should be open with each other.	1 2	20 6	1.4 1.8	0.8 0.4	-1.548	0.122	A
69	External customer priority	Group sellers give higher priority to external customers over internal.	1 2	14 3	1.5 0.8	0.6 0.3	-1.957	0.051	A
70	Buyer mandate exploitation general	Group buyers exploit the existence of a mandate by generally demanding increased commitment from internal suppliers.	1 2	20 8	1.0 0.6	1.0 0.9	-1.545	0.122	A
71	Punishment - desired	Corporate centres should punish operating actors to enforce intragroup trading.	1 2	4 2	1.5 1.0	0.4 0.0	-1.500	0.134	A
73	Centre overview	The centre takes an over view of the potential benefits of intragroup trading.	1 2	16 4	0.3 0.8	1.3 1.9	-0.809	0.419	A
74	Seller mandate exploitation price	Group sellers exploit the existence of a mandate by charging higher prices.	1 2	13 4	0.9 1.3	0.9 0.8	-0.709	0.478	A
77	Knowledge actual	Group companies are knowledgeable of the activities and performance of internal trading partners.	1 2	25 9	1.4 1.9	0.7 0.3	-2.492	0.013	R
78	Opportunism group sellers over buyers	Group suppliers exploit the existence of a mandate in their internal relationships.	1 2	30 10	1.2 0.7	0.5 1.1	-1.206	0.228	A
79	Opportunism group buyers over sellers	Group buyers exploit the existence of a mandate in their internal relationships.	1 2	29 9	0.9 0.7	1.1 0.7	-1.242	0.214	A